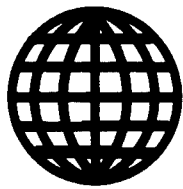


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23 July 1993



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CONTENTS

23 July 1993

ECONOMIC

NATIONAL AFFAIRS, POLICY

Commentator Anticipates More Inflation [JIAGE LILUN YU SHIJIAN 20 Apr]	1
Analyst on Developing Infrastructure, Basic Industry [CHINA DAILY 23 Jul]	2

FINANCE, BANKING

Banking Officials on Financial Internationalization [GUOJI SHANGBAO 29 Mar]	3
Avoiding Errors in Futures Market Development [ZHONGGUO XINXI BAO 24 May]	6
Background, Outlook for Securities Markets [GUANLI SHIJIE 24 Mar]	7

INDUSTRY

Gold Industry Hopes To Enter Market [XINHUA]	13
Statistics on Textile Output in June [CEI Database]	14
Total Industrial Output Value in June [CEI Database]	14
Output of Main Chemical Products in June [CEI Database]	15
Output of Mechano-Electronic Products in June [CEI Database]	15

CONSTRUCTION

Hou Jie Outlines New Urban Construction Priorities [ZHONGGUO JIANSHE BAO 27 May]	16
--	----

AGRICULTURE

Circular Urges Sound Cotton Field Management [XINHUA]	17
Liu Jiang on Increasing Peasant Income [ZHONGGUO NONGYE KEXUE 30 Apr]	18
Peasant Income Lags Behind Other Sectors [JINGJI CANKAO BAO 30 May]	23
Update on Early Rice Situation, Problems [GUANGXI RIBAO 9 May]	23
Bank Adopts Measures To Ensure Funds [JINGJI CANKAO BAO 2 Jun]	24
Prices of Production Material Continue To Rise [NONGMIN RIBAO 16 May]	25
GATT Offers Challenges to Farm Machinery Industry [NONGYE JIXIE 18 Mar]	25
Family Operations Contribute to Peasant Income [JINGJI CANKAO BAO 27 May]	28
Zhengzhou Grain Market To Engage in Future Trading [JINGJI CANKAO BAO 26 May]	28
Guangxi Worried About Hybrid Seed Availability [GUANGXI RIBAO 21 May]	28

REGIONAL

NORTHWEST REGION

Report on Deng Liqun Inspection of Xinjiang [XINJIANG RIBAO 24 Apr]	30
---	----

SOCIAL

Problems in Development of Higher Education [ZHONGGUO JIAOYU BAO 26 May]	31
Bishop Ding Speaks on Central Document No 19 [TIAN FENG 1 May]	33

MILITARY, PUBLIC SECURITY

Taiwan's Airborne Anti-Submarine Warfare Capability [JIANCHUAN ZHISHI 8 Mar]	36
Xinjiang MD Officer on Material, Petroleum Supply [XINJIANG RIBAO 3 May]	37
Logistics Deputy Director on Military Transport [XINJIANG RIBAO 15 Apr]	39

TAIWAN

Interview With Hao Po-tsun on 14th KMT Congress [Hong Kong CHIU-SHIH NIEN-TAI 1 Jun]	42
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NATIONAL AFFAIRS, POLICY

Commentator Anticipates More Inflation

93CE0619A Beijing JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese
No 4, 20 Apr 93 pp 1-2

[Commentator's Article: "Overall Retail Price Level in 1993 Begins at High Starting Point"]

[Text] As the pace of reform and opening to the outside world picks up and the economy grows at high speed, the possibility of an intensification of inflation has once again aroused concern in all quarters. Market price movements during the early part of the year aroused even more attention to this problem. State Statistical Bureau statistics show an 8.4 percent rise over the same period in 1992 in the January overall retail price level nationwide, and a 10.3 percent rise in the cost of living. This includes a 14.7 percent rise over the same period in 1992 in the cost of living of staff members and workers in 35 large and medium size cities nationwide. This is the highest rise during the last three years; thus, the rise in market prices in China's cities in 1993 began from an already relatively high level.

Preliminary analysis shows the following in addition to the high starting point for city market prices at the beginning of the year: One was that rural prices were also not low. During January, city and town retail prices nationwide rose an average 10 percent, rural prices rising an average 7.3 percent. Except for several of the 35 large and medium size cities nationwide in which the retail price index was slightly lower than 10 percent, in an overwhelming majority of cities, the rise in retail prices reached two digits, exceeding 15 percent in Qingdao, Changsha, Taiyuan, Hohhot, Ningbo, Xiamen, Wuhan, Guangzhou, and Nanning. Second was the marked rise in prices of grain and nonstaple foods. Grain prices nationwide rose 29 percent over the same period in 1992, including a 39.1 percent rise in cities and towns, and a 20.8 percent rise in rural areas. Nonstaple food prices rose 9 percent over the same period in 1992, including an 11 percent rise in the price of meat and eggs, a 12.9 percent rise in the price of aquatic products, and a 7.6 percent rise in the price of fresh vegetables. The large rise in the price of food was the main reason for the rise in the retail price level. Third was a continued climb in prices of drugs and pharmaceuticals on top of the fairly high rise in 1992. Prices of drugs and pharmaceuticals nationwide rose 9.1 percent in 1992, and in January 1993, they rose 10.1 percent. This included a 19.3 percent rise in the price of Chinese herbal medicines. Fourth was a high rise in prices of services, which had a strong effect on the standard of living of city and town residents. In January 1993, the price of services rose 22.9 percent over the same period in 1992, the rise greatly exceeding the 8.4 percent rise in the retail price index for the country as a whole, and also more than the 13.4 percent rise in prices of services in 1992.

The rise in market prices during the early part of the year resulted from a combination of the operation of the national economy and the various reform measures adopted since 1992. First is the lag effect of the price adjustments made in 1992. In 1992, the central government and local governments inaugurated a series of price reform measures that raised the procurement and sale price of grain, and decontrolled prices of meat, eggs, and poultry. In many areas, house rents, water and electricity charges, educational expenses, and the price of haircuts and other services continued to rise. These rises caused a 6.4 percent rise in the cost of living of staff members and workers in 35 large and medium size cities. It is anticipated that beginning in the second quarter, the lag effect of the 1992 price readjustments will gradually weaken and disappear. The occurrence in January of both the western and lunar New Year holidays, which produced the highest peak for the year in the consumption of both city and countryside residents, was responsible for the rise in prices of some goods, particularly nonstaple foods. The rise in prices of basic products such as raw and processed materials and energy played a definite role in pushing up prices of some consumer goods. During 1992, the purchase price of energy and of raw and processed materials rose 11 percent; the ex-factory price of industrial goods rose 6.8 percent; and procurement prices of agricultural and sideline products rose 3.4 percent. These were hefty increases that caused a rise in prices of fuel and construction materials used in the civilian sector, and of some processed foods and textiles.

Analysis of the status of the overall national economy shows market prices are facing higher pressures in 1993 than during the previous year. Overall, market prices during 1993 will rise to a fairly high level. Two problems merit attention:

One is that the role of the swift expansion of demand in leading market prices will gradually intensify. In 1992, China invested a total of 758 billion yuan in fixed assets, 37.6 percent more than in 1992, making 1993 the second highest year for investment since the advent of reform and opening to the outside world. Investment in projects now being built totals 2.79 trillion yuan. Cash inputs exceeded 100 billion, more than five times the 1988 inputs. Year-end cash flow rose more than 30 percent over 1992. The year-end savings account balance totaled 1.1545 trillion yuan, up 243.7 billion yuan from the end of 1992 in a 28.6 percent increase. Estimates call for a substantial rise in these several indicators during 1993. Currently the supply of consumer goods is greater than demand; reform of housing, medical treatment, and the retirement fund system will continue; and purchases of stock shares and other negotiable securities have channeled purchasing power into other avenues. All these things will alleviate inflationary pressures to a certain extent; however, they cannot entirely eliminate its effect on consumer goods markets. Should the popular psychology suddenly change, the consumer goods market would be effected to a certain extent and within certain areas. The rush to buy gold jewelry in an effort to

preserve value that occurred in many places during 1992 is an example of what can happen. Yet another problem is that since 1979, the country's price level has moved through three cycles. The fourth cycle began during the last half of 1990, and the movement curves suggests it is still in a rising stage. Therefore, for some time to come, changes in the price level are bound to cause a high degree of attention.

Analyst on Developing Infrastructure, Basic Industry

*HK2307030093 Beijing CHINA DAILY in English
23 Jul 93 p 3*

[Article by Liu Li, industrial analyst with the State Statistics Bureau: "State Must Get Basics Right To Boost Economy"]

[Text] China's industrial policy must focus on developing infrastructure and basic industries.

If it fails to do so, the country will miss an opportunity to realize the fruits of its economic take-off in the rest of the 20th century.

Industrial policy is one means for a government to guide the country's industrial development over a long period, but it must have a clear focus.

Vague industrial policy was one of the major reasons for the Chinese economy experiencing great ups and downs in the last decade.

But even when the policy was clear, there were some instances in which it could not be implemented.

China reaffirmed at the end of the 1980s that industrial policy centred on the development of agriculture, infrastructure and basic industry.

But the policy was overshadowed by the rapid development of processing industry.

Generally speaking, infrastructure means transport, highways, telecommunications, harbours, railway stations and airports. Basic industry includes mining, raw materials and energy.

These industries usually determine whether a country's economy can develop robustly and healthily.

The 14th National Congress of the Communist Party of China, held at the end of last year, was the spring-board for promoting economic development and reform, particularly in infrastructure and basic industry.

Some people, however, argue that the country should opt for high economic growth as its basic focus. They reason that supplies of energy and raw materials can be met in international markets.

This argument runs counter to the national situation.

Haste will make waste.

From 1989-91, when the country launched a retrenchment programme aimed at curbing double-digit inflation, the government called for a readjustment of industrial structure. Most economists believed it was time for readjustment because demand was sluggish and the pressure on basic industry was reduced.

However, infrastructure and basic industry were still developing slowly.

Basic industry advanced 23.6 percent from 1989-91, 4.6 percentage points lower than the average industrial growth rate.

Why were opportunities for industrial readjustment missed?

First, investment in infrastructure and basic industry was too low.

Funds in fixed assets in the basic industrial sector increased 66.9 percent from 1989-91, but that was only 4.9 percentage points higher than the growth of new investment in fixed assets in the whole of Chinese industry.

The margin was too small to stimulate high growth in basic industry.

Second, prices of basic industrial products were too low, compared with those of consumer goods, and the situation still exists.

It is a historical problem, as China has adopted a policy of low prices for capital goods to support its heavy industry since the founding of the New Republic.

Due to the irrational price pattern, some basic industries such as coal mining suffered losses in 1991 and the situation has yet to improve.

Third, the criteria to assess the achievements of local authorities, which were set under the planned economy, still focus on growth of local economies, ignoring profits, technological improvements and innovation.

The criteria have inevitably led local governments to spur production in the more swiftly profitable processing sector, resulting in more and more duplicate production projects across the country.

The proposed industrial policy depends on the principle of resources being allocated by the market.

Resources will continue to be the major bottleneck of China's economic development. We should avoid the go-for-speed policy, which will drain the country's limited resources.

At the same time, the government should keep some necessary administrative methods to minimize the risks brought by any short-term behaviour under a market economy.

For example, the overheated real estate industry and wild enclosing of development areas attracted capital in opposition to the country's industrial policy in 1992 and early this year.

Such behaviour has diverted funds that should have gone to basic industry and agriculture.

Accelerating reform—to establish an efficient economic system—can create a good environment for the implementation of industrial policy.

Meanwhile, more investment should be made in infrastructure and basic industry, otherwise industrial policy will amount to nothing.

In addition, it is necessary to maintain a moderate economic growth.

A stagnated economic development will blur the implementation of industrial policy, as was the case from 1989-91.

If the economy develops faster ahead of basic industry, the target of economic efforts will have to be the high inflation which will result.

Also, the implementation of industrial policy will be overshadowed.

China should learn the overheating lesson of 1992.

FINANCE, BANKING

Banking Officials on Financial Internationalization

93CE0635A Beijing GUOJI SHANGBAO in Chinese
29 Mar 93 p 3

[Article by Wu Yongde (0702 3057 1795), a cadre in the Bank of Industry and Commerce in Zhangbei County, and Jia Huaide (6328 2037 1795), a cadre in the Zhangjiakou branch of the People's Bank of China: "Financial Internationalization Critical to Formation of Socialist Market Economy"]

[Text] An essential characteristic of the world economy today is the full-fledged internationalization of economic activities, especially the astonishing speed with which finance is being internationalized. At a time when China's open policy has made breakthrough progress and the country is pushing full steam ahead with the creation of a socialist market economy, it is imperative that we examine the internationalization of Chinese finance.

1. Financial Internationalization as a Mega-Trend

- 1) International finance has undergone profound changes since the 1970s.

First, countries around the world have eased controls on banking, the number of financial institutions of a

global nature has risen sharply, and the internationalization of banking has been racing ahead. According to relevant data, as of February 1992 there were at least 40 banks whose overseas assets stayed above the 25 percent level and 10 banks whose overseas business accounted for 20 to 25 percent of total volume of business.

Second, all banks around the world are moving toward comprehensiveness and multi-functionalism in their scope of operations, targets of business, ways of doing business and management methods.

Third, it is increasingly common for banks to cross over into the securities business and vice versa. Beginning in the 1930s, the United States, Britain, and Japan adopted a policy of separating banking from securities one after another. Yet as the economies of these countries experienced steady growth and at a time when international finance became more and more all-embracing, the boundary between banking and securities has become increasingly fuzzy by the day. The barriers between the two have broken down.

Fourth, the financial market is being integrated and financial activities have transcended regional divisions. As a result, the world's major financial markets are being linked more and more closely, influencing one another and forming a single global financial market.

Fifth, the proliferation of innovative financial instruments. As direct short-term borrowing accounts for a growing share of short-term borrowing, the variety of financial products being traded on the market has also risen rapidly. There has been an endless parade of new financial instruments, notably convenience in the issue of assorted notes and marketable securities and long-term interest-rate agreements. It is now easier to raise funds on the market in a variety of ways.

Sixth, raising short-term funds by issuing securities. Traditionally taking out a bank loan was the principal method of raising short-term funds on the capital market. Since the 1980s, however, there has been a trend in Western capital markets toward the issue of securities as a means of raising short-term funds and the trading of notes.

Seventh, the computerization of the banking industry. Since the 1980s banks in developed Western nations have begun using computers extensively in their operations. Today the computerization of the banking industry has become a widespread trend in the internationalization of finance.

Eighth, tightening assets and liabilities management in banks. There has been a shift from management based on total assets to management based on assets

risk, under which the riskiness of a loan is used as a yardstick for evaluating the quality of lending and the self-discipline of the bank in question.

2) The trend in the 1980s toward financial internationalization.

First, the globalization of finance will proceed apace as economies around the world become more and more integrated and banking becomes more and more liberalized.

Second, leading Western banks adjust the pace of internationalization. In the 1980s, Western banks cut back on international operations following a period of massive expansion. The retrenchment in overseas operations, however, does not mean that business will go back to the pre-expansion level but was a time of adjustment in the course of the internationalization of finance. Its goal was to set the stage for the next round of accelerated internationalization. It portends rapid progress in financial internationalization in the 1990s.

Third, financial internationalization within the EC. After the formation of a huge unified European market in recent years, banks, securities companies, investment funds, and other financial institutions will be able to go into the banking, insurance, and investment industries unencumbered by national boundaries. By buying one another's shares, leading European banks will have a stake in the banking industry of different European nations. As for banks in Japan and the United States, they can intensify their penetration of the European market through mergers and acquisitions, etc. We can see that the European banking market is becoming a truly international market.

Fourth, financial internationalization in Asia will also pick up steam. Hong Kong and Singapore have become international financial centers. Since 1990 Taiwan, South Korea, and some member nations of ASEAN have further accelerated the pace of internationalization. To speed up financial internationalization, some ASEAN member nations have not only lifted controls on interest rates charged by banks, but also eased restrictions on foreign-funded banks. As the economies of ASEAN nations take off, their finance too will be internationalized rapidly.

2. Internationalization of China's Finance: Current Status and Development Strategy

1) Internationalization of China's finance: current status.

Before 1978 China's finance was basically in a state of isolation. Since reform went under way and the open policy was introduced, considerable progress has been made in financial internationalization. Thus far the Bank of China has opened more than 400 offices in over 10 nations and regions around the world. The total assets, total deposits, and total lending of its

overseas organizations have all increased by more than 10-fold since 1979. Its overseas operations account for over 40 percent of the bank's total volume of business. In a list of multinational banks compiled by the British magazine "The Banker" in 1992, the Bank of China ranked eighth based on the percentage of overseas business. Progress has also been made in opening up China to foreign banks. By late June 1992, 120 financial institutions from 30 nations and regions had opened 218 permanent representative offices and over 40 branches in 15 cities (special economic zones) in China.

2) Internationalization of China's finance: development strategy.

a) Continuing financial reform and building an open financial system. The financial system is the cornerstone of the entire financial structure. Whether the financial system is sound and scientific has a direct impact on the internationalization of finance in a healthy way. China's financial institutions have traditionally operated in isolation. The Bank of China takes part in some international financial activities. That aside, other specialized banks seldom involve themselves in foreign operations. Clearly this does little to promote economic internationalization and swims against the historical tide of financial internationalization. To truly ascend the global economic stage and participate in the great international circulation, China must establish an open financial system revolving around the central bank, based on specialized banks, dependent on nonbank institutions, and supplemented by joint venture banks and foreign banks. Specifically this is the thinking behind the strategy: 1) Specialized banks should accelerate their commercialization through reform. All should be given the power to handle foreign exchange as well as the renminbi, set up overseas branches, and engage in international financial operations. They should be allowed to overlap and compete in business. 2) Enable rural and urban credit unions, short-term lending companies, investment companies, and other nonbank financial institutions to develop rapidly. Allow financial institutions to invest in the creation of new financial institutions jointly with the industrial sector and foreign trade companies. Also allow them to enter the international financial market directly. 3) Large cities, provinces, municipalities, and autonomous regions with the necessary wherewithal should be permitted to set up banks overseas or do so in cooperation with the Bank of China Group in Hong Kong or foreign financial institutions as joint ventures. 4) Gradually ease controls on foreign exchange and create a nationally unified foreign exchange market that is inter-sector and inter-regional. Gradually integrate China's foreign exchange market with the international financial market. 5) Let interest

rates and exchange rates float in accordance with commodity price changes overseas and price changes on the international financial market. 6) Develop our insurance business overseas aggressively and compete on the international insurance market.

- b) Set up our own overseas network of financial activities over time. After creating a sound financial system at home, we should proceed to put together our own overseas network of financial activities. This is an important step in the internationalization of China's finance. Essentially this means, first of all, developing overseas financial institutions and allowing banks at all levels at home to set up branches, subsidies, agencies, and representative offices overseas. Encourage banks to open up the international financial market vigorously and participate in international financial competition. Second, actively participate in international financial organizations including the IMF, the World Bank, the International Development Association, the International Financial Company, and the International Bank of Settlement, as well as several regional financial bodies such as the Asian Development Bank and the African Development Bank. Facts prove that these financial institutions have been instrumental in preserving the relative stability of exchange rates, keeping the international monetary system operating, helping some countries ease their balance of payments difficulties, and promoting economic development in a number of nations. Third, depending on needs and possibilities, buy shares in foreign banks or form joint ventures with foreign banks. Organize international joint banks or set up multinational banks. The shareholders of the International Bank of Association are national banks from different countries. However, no one national bank owns more than 50 percent of its shares directly. Its characteristics: 1) It operates on a large scale with an extensive range of interests. 2) It can teach us about the multinational banking business. 3) It helps save on the expenses and costs incurred in increasing branches and engaging in overseas operations. 4) It can share costs and ensure the safety of funds. 5) It enhances one's international competitiveness. A multinational bank is a super-commercial bank whose scope of operations is multinational and that is in the banking business in different nations and regions. Multinational banks are major players in economic life today. On the one hand, they have spurred the development of international finance. On the other hand, they have played a key role in regulating imbalances in international payments, supplying international reserve assets, operating the international monetary system, and stabilizing the international financial market, thus setting the stage for financial internationalization. 1) Improve the basic conditions so that China's financial industry becomes more and more international in terms of

the way it operates and handles its accounting system, statistical system, and legal system. 2) Accelerate the commercialization of banks. Nurture a built-in drive for financial internationalization. Enhance the ability of domestic banks to orient themselves to the outside world. 3) Speed up the development of the financial market and expedite the internationalization of the securities market. 4) Expedite electronic construction in banking. Raise the technological level of China's financial industry steadily. 5) Nurture China's multinational bank groups. The overseas development of China's finance may be spearheaded by large banks. Besides the Bank of China, we should also develop the Bank of Industry and Commerce and the Bank of Communications to turn them into internationally influential multinational banks in the shortest time possible. In the process of internationalizing finance, we must take pains to develop new business, particularly nontraditional business. Use non-traditional business to drive traditional business.

- c) Open China to foreign-funded banks actively but cautiously. First, the starting point in attracting foreign-funded banks must be the economic and financial reality inside China. It must be carried out in accordance with a plan systematically, paying special attention to the quality of foreign-funded banks. Encourage the establishment of Sino-foreign joint venture banks. This kind of bank not only will enable us to use the funds and network of clients of foreign banks, but will also give us an opportunity to directly learn their managerial experience and accelerate the training of personnel in commercial banking. Next, step up management by guiding the geographical distribution and business focus of foreign banks so that foreign-funded banks can contribute to economic construction in China even as they make a profit. As China becomes more open and financial reform continues in the country, restrictions and controls on the entry of foreign banks may be eased as appropriate to reach a semi-open level.
- d) Participate in the international financial market and nurture China's own international financial center. It is imperative that a country developing an export-oriented economy nurture its own international financial market to compete on the international financial market actively and successfully. The financial market is a key component of the socialist market system overall. Only by setting up a sound and advanced financial market can we bring about the early formation and perfection of China's socialist market economy. An international financial center is part of the network of global financial market. The former is an essential ingredient of the latter, the heart from which to launch a spectrum of international financial operations. To develop our own international financial center, we must work hard to create the

right conditions: one, political stability and the application of the rule of law across the board; two, establishing an international trade center; three, easing foreign exchange controls to make the renminbi freely convertible to other leading world currencies and allowing the presence of a free foreign exchange market with extensive international ties; four, introducing preferential financial, tax, and banking policies to facilitate the entry into China of foreign financial institutions and the movement of foreign funds; and five, modern telecommunications facilities and other appropriate environmental installations.

Avoiding Errors in Futures Market Development

93CE0655B Beijing ZHONGGUO XINXI BAO
in Chinese 24 May 93 p 4

[Article by Xiang Wenqiao: "Correct Errors in Futures Market Development"]

[Text] Currently, a tidal wave of developing futures markets in a big way is taking shape. According to incomplete statistics, nationwide over 20 commodity exchanges engaged in futures trading have been opened with the approval of governments at various levels. Another 30-plus such exchanges are either in the process of being opened or in the form of projects on which preparatory work is under way. There are over 300 brokerage firms engaged in futures trading. In addition, according to forecasts by the relevant government agencies, a large number of futures markets and futures brokerage firms engaged in trading in such commodities as coal, petrochemical products, grain, and cotton will be opened this year. We express our strong apprehensions about all this.

Although futures markets are important to economic development and the promotion of the maturing of market economy, futures trading entails a large degree of speculation and risk. As an advanced form of market activity, futures trading has to be based on the existence of the necessary conditions. Even today, such developed countries as Britain, Germany, and Japan have each only 10-plus futures markets. Even in the most economically developed country, the United States, there are no more than 20 futures markets.

The experience of other countries shows that futures markets are a product of the advanced development of the market of a country. Such markets must move toward standardization and internationalization; and the relevant measures should be taken in several phases. The standardization of futures markets is first of all a matter of acquiring a market culture. The main elements are: 1) standardization of behavior; 2) standardization of organizations; and 3) standardization of contracts. Whether an exchange can move toward internationalization will be mainly determined by—in addition to the situations regarding such objective conditions as the necessary transport conditions and existing economic

environment—how well it is doing in regard to creating the necessary conditions with its own efforts. The main conditions in this regard are: 1) being of the typical kind; 2) being specialized; 3) being modernized; and 4) having accommodating abilities, etc.

In view of all this, it is not proper to try to complete the development of China's futures markets in one step. It is even less proper to just try to join in the activity without taking account of the situations regarding the relevant conditions, environments and foundations. In terms of the current situation, it is necessary to correct the following errors quickly:

1. Stop establishing markets in a blind manner. The leaders of some regions would hurriedly develop futures trading without even having an understanding of what a futures market is as well as the basic rules on futures markets, and would develop futures trading in commodities that are difficult to standardize and in which it is difficult to conduct futures trading, such as coal and steel products. Some would even start futures trading in aquatic products, fruits, and Chinese medicine.
2. Put an end to the situation where there is no overall planning. Take the example of nonferrous metal futures markets. Within only six months, the agencies and organizations concerned established three nonferrous metals exchanges in Beijing, Shenzhen, and Shanghai. In addition, several more nonferrous metal futures exchanges will be opened this year.
3. Put an end to the situation characterized by a lack of standardization of conduct. Futures trading is standardized trading based on future deliveries, and must be carried out under strict supervision; otherwise, there will be fraudulent conducts. Currently, the futures markets are supervised administratively by different agencies, which tend to formulate their own rules. There is no single unified authority, and everyone is acting in accordance with its own rules. Some futures markets have been given certain ranks, and are based on the use of certain administrative means. Some futures brokerage firms are like administrative agencies in significant ways. Because of the lack of strict and standardized trading rules, some futures markets exist only in name, resulting in a situation where "there are markets but no trading."
4. Put to an end to the situation where the development of laws and the legal system is lagging behind. Although a number of futures markets have emerged in China, the laws and regulations required are yet to be formulated. Consequently, there is no effective supervision over futures trading. There are now underground futures-trading places in some cities, and fraudulent buying and selling occur from time to time. The Baishigao Futures Consulting Company in Shenzhen—exceeding their authorized business

scope—participated in international futures trading, resulting in their clients suffering losses totalling nearly 10 million yuan.

5. Stop erroneous media coverage and propaganda. First, there is the issue of propaganda errors relating to the cases of "instant millionaires or billionaires." Not a few people claim that while stock trading and real estate trading can make one a millionaire, futures trading can make one a billionaire. Second, there is the issue of propaganda errors relating to "time-difference futures." Some news media erroneously described forward contract trading as activities of futures markets, resulting in such laughable incidents as those of "water mellon futures" and "potato futures." All those involving delayed delivery were called futures. Consequently, there was such a shocking news report stating that there had emerged 10 futures markets overnight in Henan.

People should take rational steps to introduce norms amidst the current futures market fever, so that markets can start to develop in a healthy and expeditious manner. Presently, the most urgent task is to do a good job in accomplishing, at least the following several things: 1) clarifying which agencies are the regulatory agencies, and managing well the work of planning and providing guidance; 2) promulgating the Regulations on Futures Markets and the Detailed Rules on Implementation as soon as possible, so as to make clear the basic conditions required for opening futures markets and futures brokerage firms which should register themselves with the industry and commerce agencies, while prohibiting the bodies in charge of relevant industries as well as local governments at various levels from approving the opening of futures markets without proper authorization; 3) adhering to the practice of providing training before allowing the personnel to start working, and acting in accordance with international practices; and 4) accelerating the study and formation of a system of relevant laws, for "having laws before markets" is the customary model in terms of standardizing futures markets.

The hope is that China will not see the emergence of a large number of futures markets all at once; enthusiasm is high but not excessive, and order is not disrupted.

Background, Outlook for Securities Markets

93CE0582A Beijing GUANLI SHIJIE
[MANAGEMENT WORLD] in Chinese
No 2, 24 Mar 93 pp 36-42

[Article by Zhang Yujun (1728 5148 6511), State Council Securities Commission: "Status of China's Securities Market in 1992 and Prospects for Development in 1993"]

[Text] Development of securities markets is an important integral part of the establishment and perfection of China's market system. This article portrays the general situation prevailing in the 1992 Chinese national bond

market, the business enterprise debenture market, the financial bond market, the stock market, and the renminbi-denominated special share market as the basis for raising 10 basic problems in urgent need of solution today in the development of the securities market. Finally, I briefly forecast development prospects for China's securities market in 1993.

Development of China's Securities Markets in 1992

(1) The 1992 National Bond Market

Plans called for the issue of 31 billion yuan in national treasury bonds in two stages during 1992. During the first stage, 10 billion yuan in five year treasury bonds were to be issued, and during the second stage, 21 billion yuan in three year treasury bonds were to be issued. The dates of issue were: 1 April to 31 May for the first stage, and 1 July to 31 August for the second stage. An additional 5 billion yuan worth of government bonds was to be issued to financial institutions.

For the 1992 treasury bond issue, a contract purchase exclusive sales system was used throughout, contacting done by local governments, the Ministry of Finance being the contractor, and local government finance departments and bureaus contracting the purchase of the bonds and selling them to the public after which—in their capacity as contractors—the local government finance departments and bureaus signed contacts with institutions contracting the sale, the institutions contracting the purchase and exclusive sale, and selling the bonds to the public at large. In addition, during the first bond issue, the Ministry of Finance also had the "Chinese Securities Market Research and Designing Center" try out the issuance of book entry treasury bonds. The cancellation of assessments for contract purchasing and exclusive sale was a feature of the market that resulted in a first rate market for the national bond issues. Overall, it was a successful trial.

The 16 character policy for 1992 national bond issues was "simplification of kinds of bonds, increase in varieties, increased frequency of issue, and a shorter cycle." The original issue of national bonds consisted of six different kinds [sic; only five kinds named], namely treasury bonds, fiscal bonds, fidelity bonds, national construction bonds, and national key construction bonds. The results were somewhat chaotic, giving rise to numerous annoyances in issue, redemption, and trading. Therefore, in 1992, only two kinds were issued: national treasury bonds, and public finance bonds, the public finance bonds going only to a special designee: financial institutions. By way of increasing variety, in 1992, both three year and five year bonds were issued in 1992. Frequency was increased, bonds being issued in April and again in August 1992. This helped foster and build a national bond market. By a shortening of the cycle is meant a shortening of the issuance period. Formerly the period of issuance was several months, or it might even drag on to the end of the year. In 1992, the two issues were issued in two months. This helped raise efficiency

and lower costs. In terms of performance, the first phase treasury bond issue was very successful. The payment period was shortened, and money entered the treasury much faster than in previous years (by June, virtually all of it was in the treasury, and the issue was oversubscribed). The second phase treasury bond subscription was also greater than the amount of issue planned for rather good fulfillment of the issue quota. As of the end of the year, 41 billion yuan worth of national bonds were issued, 10 billion yuan more than the planned issue.

In terms of price trends, the national bond transfer market in 1992 may be clearly divided into three stages as follows: January through April was a period of rise during which prices climbed steadily, transactions being extraordinarily brisk. May was a stagnant period when prices saw-sawed, both buyers and sellers entering the market fairly cautiously. June till the end of the year was a deep slump period when the trading volume tumbled. Despite several rallies, which were not very strong, the good times did not last long. On 1 June, the three large, centralized national bond trading markets, namely the Shanghai Securities Exchange, the jointly operated STAQ system, and the Wuhan Securities Exchange Center, traded 1991 and 1992 bonds at an average price of about 109.55 and 102 yuan respectively for a 9.06 and 10.33 percent earnings ratio. By 14 August, the trading price of the foregoing issues at the Wuhan Securities Trading Center was 107.98 and 100.12 yuan, the price falling 1.67 and 1.88 yuan respectively in a 1.52 and 1.84 percent decline. The price ratio was 10.25 and 11.29 percent respectively, both greatly exceeding the face value interest rate. All three of the large centralized trading markets had a large number of bonds on hand for sale, but buyers were few and far between. Although hard pressed themselves, for various reasons many institutions had no choice but to dispose of the bonds reluctantly at reduced prices. Although some institutions wanted to buy the bonds at a reduced price, because of the overall trend of the market and the fragility of their own financial position, they had misgivings about taking the plunge, and even when they did take it, they did not dare go too deep. In every bond trading market the trading volume dropped, except for the Wuhan Securities Trading Center in which the rising trend had been fairly strong ever since its founding, trading volume averaging more than 200 million yuan per week. The third stage lasted for a long time and prices fell greatly. This was unique in the history of China's bond market. An overwhelming majority of securities traders and securities experts had not anticipated it.

The main reasons for this situation in national bond markets during 1992 were as follows:

1. Heating up of the economy, funds flowing into many different avenues. After more than three years of improving the economic environment and rectifying the economic order, China's economy had begun to enter a new stage of development. Following Comrade Deng Xiaoping's remarks during his travels in south China, in particular, a great tide of reform and

opening to the outside world, and going all out to move ahead rapidly surged everywhere throughout the country. Quite a few securities institutions, particularly trust investment companies, began to readjust their investment portfolios, widening their areas of investment, the money available for investment in securities flowing into many different avenues as a result.

2. Overheating of the stock market with a cooling of interest in bonds. In 1992, when the Shanghai and Shenzhen stock markets expanded trial operation of the stock market, the enthusiasm of share buyers reached unprecedented heights. Quite a few provinces and cities throughout the country also began to itch as a stock market craze swept the entire country. One result of this was that quite a few securities institutions began, either directly or indirectly, to go into the stock market, and they had little time to concern themselves with the bond market. The interest of investors in bonds also declined greatly.
3. Tightening of the money supply, cutting off the source of investment funds. As the economy continued to heat up, the People's Bank adopted a series of actions to control the scale of credit to prevent economic overheating, to recover some short-term credit, and to prohibit the use of short term credit markets to obtain money for investment in the securities market. This resulted in blocking sources of funds for securities.
4. Excess holdings; ineffective readjustment. Despite the numerous documents issued about cutting back holdings of convertible securities since the removal of restrictions on treasury bonds that permitted their transfer to pilot project securities markets, the problem of a build up of unsold securities in convertible securities institutions has continued to exist in varying degrees. Since the trial contract purchase and exclusive sale of treasury securities in 1991, in particular, when contracting institutions found how sweet the returns from the contracting of purchases could be, quite a few institutions had hopes of reviving old dreams. As a result, the contract purchasing and exclusive sale of securities became extremely lively. After contracting their purchase, many institutions failed to sell them actively, nor was over-the-counter trading well organized. As a result, their holdings of securities increased greatly. When this additional amount was added to their existing holdings, many convertible securities institutions had more securities on hand than their financial position permitted. By 1992 when bonds huakuan [0439 2949] were listed, the situation had changed greatly. Securities institutions everywhere were short of funds, so they had to vie with each other to dispose of their bonds at reduced prices. Thus, the result was a glut of bonds for sale that caused another slide in prices.
5. Too much self-directed trading, and too few brokers. One might expect that what with large numbers of securities being offered for sale, a slide in securities

prices, and a rise in earnings ratios, investors would regard this as a wonderful opportunity to invest. Actually, however, the number of institutional and individual investors was not all that large. This was attributable not only to the large numbers of bonds issued during the year and some impact from stocks, but also, to a very large extent, to securities institutions themselves having emphasized buying more than selling, having emphasized handling their own trading rather than commissioning others to do it, and having emphasized institutional trading rather than over the counter trading. Since an overwhelming majority of China's securities institutions do their own trading, brokers are few in number, and no large pool of investors exists to provide support, with the very first signs of trouble in the securities market, securities institutions have to bear the consequences of their actions.

Even so, by the end of 1992, trading in national bonds totaled 35 billion yuan, the Wuhan Securities Trading Center, the Shanghai Securities Exchange, and the Beijing STAQ system becoming nationwide securities trading centers. The Shanghai Exchange's promotion of futures in national bonds changed the former form of spot trading only.

(2) Business Concern Bond Market in 1992

In 1992, the government authorized the issue of 35 billion yuan worth of business enterprise bonds. This included China national corporation and China national business enterprise bonds worth 17 billion yuan (3 billion yuan of them bonds of the China International Trust and Investment Corporation), 10 billion yuan in state investment bonds (including 2 billion yuan worth of technical transformation bonds), 4 billion yuan worth of China national enterprise bonds, 18 billion yuan worth of local government corporation and local government enterprise bonds (including 1.5 billion yuan worth of local government corporation bonds, 14.5 billion yuan worth of local government enterprise bonds, 1 billion yuan worth of housing construction bonds, and 1 billion yuan worth of internal bonds).

Selling of the China national corporation and the China national enterprise bond issues proved fairly difficult in the 1992 enterprise bond issue market. Not only did the timing for the issuance of 3.1 billion yuan worth of electric power, petroleum, and motor vehicle national enterprise bonds, the issuance of 2 billion yuan worth of bonds by energy, transportation, raw and processed materials, and light machinery and electrical industry and textile industry investment corporations, as well as the issuance of 6 billion yuan worth of industrial investment bonds clash with the issuance of treasury bonds, but mostly the interest rate on the aforesaid bonds was too low. The reputation and negotiability of the aforesaid bonds was not as good as that of treasury bonds, but their interest rates were on a par with that of treasury bonds. The predictable result was they were more difficult to market than treasury bonds.

By contrast, the issuance of local government enterprise bonds, enterprise short-term financing bonds, and local government investment corporation bonds went relatively smoothly. One reason was that the new People's Bank interest rate regulations had not yet gone into effect, so interest on them was paid in accordance with the old People's Bank regulations. This meant that the interest rate on enterprise bonds could rise 20 percent higher than the prevailing bank savings interest rate, the interest rate being 9.07 percent for one year, 9.50 percent for two years, 10 percent for three years, and 10.8 percent for five years. Enterprise and bond investors found these interest rates readily acceptable, and fairly realistic. The four year enterprise bonds that some areas issued, which paid a 10.3 percent compounded interest rate, sold quite readily. However, places in which the newest interest rate regulations had gone into effect found it difficult to sell bonds. Furthermore, every jurisdiction was feverishly engaged in raising funds. Many places took it upon themselves to issue bonds and raise funds in various ways without prior permission. This also hurt execution of bond issue plans.

In 1992, the situation in China's business enterprise bond market was as follows: The issue of 8 billion yuan in investment bonds, 3.42 billion in China national corporation bonds, 5.4 billion yuan in China national enterprise bonds, 1.3 billion yuan in local government corporation bonds, 15.27 billion in local government enterprise bonds, 1 billion yuan in enterprise internal bonds, 900 million in housing construction bonds, 17 billion yuan in enterprise short-term financing bonds (outside plan), 1.22 billion in cestui que trust bonds, and 980 million in investment fund bonds. In addition, Shanghai, Guangdong, Guangzhou, Hainan, Shenzhen, Fujian, and Xiamen instituted special securities control policies whereby the amount of securities issued was controlled at the amount of permitted increase, the scale not being listed in securities plans. These seven cities and provinces issued 1.42 billion yuan worth of enterprise bonds.

One pronounced feature of the country's enterprise bond market in 1992 was the steady appearance of new kinds of securities. Investment fund securities, cestui que trust bonds, and convertible securities became bond market favorites. Not only did they sell extremely well in the issue market, but they became mainstays of the securities trading market. Volume of trading in enterprise bonds in China has always been relatively small. It is limited by many factors. In 1992, new kinds of securities held a leading position in the volume of trading on the Tianjin, Shenyang, Wuhan, Chengdu, Chongqing, and Xian securities trading centers. Statistics show the volume of trading in enterprise bonds at only about 5 billion yuan.

(3) The 1992 Finance Bond Market

To diversify financial assets, following Chinese People's Bank approval, some banks and financial institutions have been permitted to issue finance bonds in recent years. The main issuers of finance bonds are banks and

other financial institutions. Specialized bank issuance of finance bonds began in China in 1985. Following its revival in 1987, the Bank of Communications began to issue finance bonds, and in 1988, other finance institutions began to issue finance bonds. Individual banks handled their own issuance of finance bonds as well as repayment of principal and interest. The bonds are openly issued to individuals.

The money raised through the sale of finance bonds is used to issue special loans. The main uses to which such loans are put are finishing up construction projects, as working capital following project completion, and for the 30 percent shortfall in the working capital that enterprises own themselves from all of which the economic returns are good. In addition, following special permission of the People's Bank main office, the Construction Bank may issue within national plan a small amount of special capital construction bonds for projects within national plan whose products are urgently needed, whose economic returns are good, and in which the further investment of a small amount of funds permits completion of work and the beginning of production. In the processing of issuing finance bonds in 1991, some events occurred that, although very preemptive in the market, did not permit completion of issue plans. The reason was that interest rates for finance bonds varied according to the length of time till maturity. Consequently, banks could not attract a steady supply of funds over a long period of time. This hurt bank's planning for the use of funds. Full use could not be made of the advantage that bonds possess in being able to provide a steady source of funds over a long period of time.

In 1992, plans called for the issuance of 5.5 billion yuan in finance bonds in China, but the volume of trading in finance bonds was small, and the trading market was not very brisk. The main problem was failure to solve the finance bond redemption problem, however, the interest rate was fairly high.

(4) The 1992 Stock Market

As of the end of 1992, a cumulative total of more than 7.5 billion yuan of share certificates of all kinds had been issued in China.

China's stock exchange began in 1986. In that year, the Shanghai Municipal Industrial and Commercial Bank's Trust and Investment Corporation was first to run a stock listing and transfer business. Later on, to ensure the sustained and stable development of a stock market, the State Council specifically provided that only Shanghai and Shenzhen would be permitted to list and transfer stocks, or engage in stock trading activities. At the same time, the People's Bank also issued a series of regulations about the listing and trading of shares. Today, only Shanghai and Shenzhen have exchanges that are fairly complete and also able to issue and transfer shares. On 19 December 1990, the Shanghai Securities Exchange was established, and in July 1991, the Shenzhen Securities Exchange was formally founded. As of

the end of 1992, share trading in China totaled 137.724 billion yuan, showing that China's stock market has entered a new stage.

As of the end of 1992, 73 kinds of securities were listed on the Shanghai Securities Exchange. This included the listing of 38 different shares, four national loans, 11 finance bonds, and 20 enterprise bonds. Listed shares totaled 13.085 billion yuan in value and had a market value of about 55.8 billion yuan. Share trading was particularly brisk, trading volume amounting to 49.714 billion yuan.

As of the end of 1992, 39 different securities were listed on the Shenzhen Securities Exchange. This included the listing of 33 different stocks, four government loans, one stock option certificate, and one enterprise bond. Listed shares totaled 2.6 billion yuan in value and had a market value of 48.3 billion yuan. Volume of share trading totaled 88 billion yuan.

(5) The Renminbi-Denominated Special Share Market in 1992

Renminbi-denominated special shares are also known as B shares. Their face value is denominated in renminbi, and they are supplied to investors outside China who buy and sell shares using foreign exchange. B shares are issued by underwriter groups set up by securities dealing institutions. Underwriter groups are made up of underwriters and sellers. The main underwriter must be a securities dealing institution inside China, and most sellers are securities dealing institutions outside China. Sellers sell primarily to foreign investors.

In 1991 the Shanghai Vacuum Electron Device Corporation issued B shares having a face value of 100 million yuan renminbi, and 11 enterprises in Shenzhen, including the China Bicycle Corporation, issued B shares having a face value totaling 280 million yuan renminbi. By the end of 1992, nine enterprises in China had issued B shares at a total value of more than 800 million renminbi. Trading volume for the year totaled 303 million renminbi. Nine of the 11 Shenzhen enterprises that issued B shares listed and traded them, volume of trading amounting to 1.6 billion yuan.

Ten Basic Problems in Need of Solution Today in the Development of Securities Markets

(1) Macrocontrol of Securities Issuance

Because of the fairly tight government control of credit at the present time, which occasions a shortage of funds for enterprises, every jurisdiction is considering the raising of funds through the issuance of securities, and most of these funds are to be used for investment in new fixed assets. In particular, every jurisdiction regards the issuance of share certificates and decontrol of the stock market as an important part of reform and opening to the outside world. A substantial number of the bonds that various jurisdictions issued in 1992 exceeded the state plan, and all sort of other means were also used to

raise funds. Some areas also issued *cestui que* trust securities, investment fund securities, and convertible securities outside plan. Bond interest rates are somewhat disorderly, a situation existing in which high interest rate bonds in violation of state regulations have been issued. In the stock market, some areas have taken it upon themselves to issue shares publicly without state approval. Various jurisdictions have exceeded state-set limits for the issuance of internal equity certificates, under cover of setting up fixed fund raising share corporations. Still other units and enterprises have issued all sorts of share certificates without the approval of government departments concerned. Incomplete statistics show nearly 1,000 fixed fund raising share corporations as having been set up, issuing more than 50 billion yuan worth of internal equity certificates. Unless better macrocontrol is exercised over this bond and stock craze, a new investment craze is bound to occur that will create serious inflation.

(2) Standardization of Share System Enterprises

The government departments concerned have "standardized" share system enterprises in pertinent documents as four types, namely the juridical person shareholding share system, the internal staff member and worker shareholding system, the publicly issued (unmarketed) share system, and the publicly issued and market-traded share system. Actually, the second and third kinds are not only difficult to operate, but contain quite a few loopholes. Take fixed fund raising stock corporations practicing internal shareholding. Not only are the legally prescribed limits of such corporations unclear, but who is an internal staff member and worker is also a flexible concept. In the case of the third kind, all publicly issued shares must be traded on the market, otherwise, trading is on the black market. In addition, examination and approval authority for the issuance of shares by the foregoing two kinds of share system enterprises is limited to government-authorized units. Thus, control is lost over development of the second form of share system enterprises. Incomplete statistics show that in 1992 the number of fixed fund raising share corporations approved by a government-authorized unit had grown to more than 1,000, and about 50 million yuan worth of internal share equity certificates had been issued. The issue of the future of these fixed fund raising corporations and the issue of share equity certificates has become the focus of public attention.

(3) Problems Inherited in the Issuance of Share Certificates

Simultaneous with the gradual development of China's stock markets are some inherited problems requiring earliest handling. One is the problem of the need for reapproval by the authorities concerned of enterprises that local government approved to issue shares publicly before issuance on 23 May 1990 of Document No. 33. So far, the authorities concerned have approved more than 20 such, and reportedly there are 89 in the country. These enterprise issue share outside the state's 1993

securities issuance plan. These enterprises continuation of such approvals will seriously impair macrocontrol of the stock market. Second is the problem of fixed fund raising share corporations' change to the public issuance and listing of shares. In 1993, an overwhelming majority of enterprises approved to issue shares publicly were enterprises having internal staff member and worker shareholding that practiced fixed fund raising in 1992. How these "internal" shareholdings are converted has become a major factor impairing social stability. Third is the problem of how to handle the shares that some places issued without authorization in 1992. Such enterprises are not numerous, but earliest possible handling is required nevertheless.

(4) The Conditions and Qualifications for Share System Enterprises Issuance of Shares

During the period when the share system was being tried out in China, open issuance of shares was limited to Shanghai and Shenzhen. No other places were permitted to run trials. Moreover, trials had to be conducted in collective enterprises and in township and town enterprises. Later on, consideration was also given to allowing trials in the three kinds of partially or wholly foreign-owned enterprises and in enterprises that were largely market regulated. Consequently, many enterprises that listed shares were small, and the number of shares they issued was also relatively small. They did not meet the conditions for listing shares required for listing company abroad. Permitting any areas or enterprise to issue shares is actually a very great preferential policy. According to the principle of "fairness and impartiality" in the securities market, all regions and enterprises in the country are to be treated equally without discriminations. A policy that permits only this place but not that place to run trials is improper. Instead, certain enterprises should be the basis. So long as the overall scale of shares is strictly controlled, enterprises rather than areas should be selected in shaping a uniform nationwide market.

(5) The Problem of Location of Securities Exchange Markets and Formation of a Network

Currently China has only two regional security exchanges. Even though these two exchanges have developed with astounding speed, they still find it difficult to satisfy needs for the development of securities markets. Shenyang, Tianjin, Wuhan, and Chengdu have also established securities trading centers to help remedy the shortcomings of the two exchanges. These centers have developed fairly rapidly, but to call them securities trading centers is a misnomer; they are largely outside the purview of securities supervision and control. In 1993, China's share issue trials are to be expanded throughout the country, the amount of shares issued alone to be increased approximately five times. In 1993, the number of enterprises meeting conditions to market securities, including the problem enterprises inherited from the past, will greatly expand to at least 150 or so. These enterprises cannot readily market their shares through just Shanghai and Shenzhen. Therefore, while

turning the Shanghai Securities Exchange and the Shenzhen Securities Exchange into securities exchanges for the use of the whole country, it is very necessary to make several of the country's securities trading centers regional securities exchanges. This will both help solve circulatory problems for some securities and also help supervision and control of the securities market.

(6) The Problem of Regional and Departmental Separation of Securities Markets

The way in which securities markets have developed in various areas shows that inasmuch as the existing funds distribution employs a control system based on administrative zoning to prevent the outflow of funds from the home area, each jurisdiction adopts a regional blockade policy in issuing securities, and the trading of securities across regions is also restricted. The government agencies in each jurisdiction are also basically a law unto themselves. For example, national bond issues are exchange market specific, each government agency setting up its own securities market go-between mechanism. This separation of regions and government agencies seriously impairs the unified formation and development of the securities market.

(7) The Problem of Securities Market "Openness, Impartiality, and Fairness"

The basic principle in the operation of securities markets is "openness, impartiality, and fairness." This basic principle has yet to be fully expressed. One might say that its expression is the key to the healthy development of China's securities markets. There should be clear-cut regulations about the openness of enterprises' business and financial conditions, and there should be clear-cut regulations about securities control personnel and the buying and selling of shares by securities professionals. A system should be set up to avoid securities market conflicts of interests. A unified system for announcing securities market information should be set up. Deception and swindling, insider trading, and price manipulation in securities markets must be firmly prohibited.

(8) Securities Market Development Strategy and Planning Problems

Even though the securities market has begun to take shape after many years of development, it remains very undeveloped, and can be regarded only as a newly emerging securities market. Reportedly many Chinese enterprises and corporations fervently desire to issue and list shares directly abroad, and some enterprises have even listed shares abroad without approval from the authorities in charge of securities. If good domestic enterprises list their shares abroad, how can China's own securities market be developed? No nation has ever developed by relying on the listing of securities abroad to raise money. Therefore, energies must be concentrated on developing domestic securities markets. Only when China's securities markets have begun to develop can enterprises provide foreign traders a fine investment climate.

(9) Opening Securities Markets to the Outside World

The opening of China's securities markets to the outside world has begun in the following main ways: First is the special renminbi-denominated shares market, which permits foreign investors to invest in the special renminbi-denominated stock market. Second is allowing some domestic enterprises to openly issue and market shares in Hong Kong. However, many foreign investors desire to participate further in China's securities market, and some domestic enterprises also desire to participate in international securities markets. In long-range terms, a problem exists in dovetailing China's security market with the international securities market. Therefore, the question of further opening of China's securities markets to the outside world requires earliest study. A long-term plan is needed. In particular, since Chinese securities market control has a bearing on many government departments and local governments, uniform coordination is even more necessary.

(10) Building of a Securities Market Legal System

China still lacks nationwide laws and regulations and various important attendant laws and regulations to control securities markets. Lack of uniformity exists in the form of organization, the internal structure, the control system, the financial distribution system, and shareholder rights in enterprises trying out a share system because of the lack of corporate law. This has a bearing on the stock market. Likewise, because of the lack of strict securities market legislation, it is hard to supervise and control effectively black market trading, swindles, price manipulation in securities markets, as well as securities control personnel, securities professionals and party and government cadres misuse of their authority for private gain so as to protect the interests of investors, regulate the behavior of market participants, and promote the healthy development of securities markets.

3. Prospects for Securities Market Development in 1993

1993 will be an important year for the development of securities markets. During this year, China will further accelerate the pace of development and opening to the outside world of securities markets in an effort to move to a new level the development of securities markets.

(1) Major Advances To Be Made in Building a Securities Market Legal System

Sound laws provide the legal support for healthy development of the securities market. In the near future, the government will organize the departments concerned for the drawing up of a series of major laws and regulations as follows: "State Council Securities Control Regulations," "Stock Issue and Trading Control Regulations," "Securities Exchange Control Regulations," "New Share Sales and Subscription Control Procedures," "Securities Business Institution Control Procedures," "Securities

Investment Fund Control Procedures," "Securities Personnel Behavior Norms," "Share Issuance Qualifications Examination and Control Procedures," "Renminbi-Denominated Special Share Certificate Control Methods," "Internal Share Holding Control Regulations," "Juridical Person Share Control Procedures," "State-Owned Share Transfer and Control Provisions," "Bond Control Regulations," and "Domestic Enterprise Foreign Listing Control Provisions." The continuous announcement of these laws and regulations will go a long way toward standardizing the behavior of participants in China's securities markets. In addition, "People's Republic of China Securities Code," the drafting of which the NPC Standing Committee mandated, is also being worked on urgently.

(2) Further Expansion of the Scale of Securities Market Issues

China plans to issue 98 billion yuan worth of securities in 1993, 37 billion yuan of which will be national treasury bonds of which 30 million yuan will be sold to the public, the remaining 7 billion yuan going to financial institutions. Corporate and enterprise bond issues will total 50 billion yuan, 25 billion yuan of which will be China International Trust and Investment Corporation and China national enterprise bonds, and 25 billion yuan of which will be local corporation and enterprise bonds. Financial institution bonds will total 6 billion yuan, and enterprise stocks will total 5 billion yuan. Issuance of these securities will provide powerful impetus to the expansion of China's securities market.

(3) New Ground To Be Broken on the Scope and Size of Stock Market Pilot Projects

Prior to 1993, stock market pilot projects were limited to Shanghai and Shenzhen. In 1993, stock market pilot projects will be expanded nationwide, every province, autonomous region, directly administered city, and municipality listed under plan selecting one or two enterprises that meet conditions for the operation of share system pilot projects. The number of share system pilot project enterprises run in Guangdong, Fujian, Hainan, Guangzhou, and Xiamen will be suitably increased, 5 billion yuan worth of enterprise shares being issued. If issued at a premium price, they will raise nearly 10 billion yuan of construction funds. This will be a manifold increase over 1992 in the preliminary formation of a nationwide stock market.

(4) Further Increase in New Kinds of Securities

In 1992, a series of new kinds of securities appeared in China's securities markets such as securities investment funds, cestui que trust securities, and convertible securities. During 1993, these new kinds of securities will become a formal part of state securities plans, 2 billion yuan worth of securities fund securities and 3 billion yuan worth of cestui trust securities issued. These new

securities will further enrich and enliven securities markets. During 1993, housing construction bonds, short-term financing bonds, and options certificates will further develop.

(5) Richer and More Varied Kinds of Securities To Be Listed in Securities Exchange Markets

In 1993, first of all, large number of enterprise openly issued shares will be listed and traded. In addition to local Shanghai and Shenzhen enterprises, about 1,000 enterprises nationwide will become listing corporations. Thus, the number of listing corporations in China will take a leap to bring about a substantial change in the situation in which market demand for stocks is greater than the supply. Second, all sorts of national bonds, and derivative financial instruments will be listed. In addition, financial futures markets will begin to develop. During 1993, the volume of securities trading in China will likely increase manifold.

(6) New Advances in Opening to the Outside World of Securities Markets

During 1993, the state will select enterprises meeting requirements to issue and list shares openly on foreign markets. Specifically, several large enterprises will be encouraged to list shares openly in Hong Kong. In addition, the purview of pilot projects on the special renminbi-denominated shares market will be further widened and the scale increased. Foreign investors will have more opportunities to participate in China's security markets. By the same token, the Chinese securities business will have more opportunities to take part in international securities markets.

(7) Gradual Improvement of Securities Market Control

In 1992, the State Council decided to establish the State Council Securities Commission. At the same time, it founded the Chinese Securities Supervisory and Control Commission. These two organizations are now in formal operation. The establishment of these two organizations play an important role in improving securities market control to ensure the healthy development of securities markets.

INDUSTRY

Gold Industry Hopes To Enter Market

OW1607063393 Beijing XINHUA Domestic Service in Chinese 0646 GMT 20 Jun 93

[Article by reporter Sun Jie (1327 2638): "The Gold Industry Hopes To Enter the Market"; XINHUA Domestic Service in Chinese at 1040 GMT on 20 June carries a 66-character service message requesting subscribers to delete last paragraphs of the following item]

[Text] Beijing, 20 Jun (XINHUA)—At present, our country's gold industry still retains a strong tint of a planned economy. The market is not yet entirely open to

the gold industry. Experts believe the industry should accelerate efforts to enter the market.

As a special industry in China, the gold industry still carries out mandatory production tasks. Prices of its products are fixed by mandatory planning, and its products are purchased solely by the state. Therefore, production and marketing are very rigid. On the other hand, the prices of raw and semifinished materials and energy needed for production by a gold producing enterprise are now decontrolled. The enterprise must buy these materials in the market at prices determined by market demand. When prices rise, the enterprise must absorb the extra cost itself. Therefore, some people say: The gold industry has a "leg" in the market; its other "leg" is still bound by planning. Owing to these circumstances—"one end is decontrolled while the other is rigidly controlled"—the gold industry's economic performance has gradually declined in recent years, and the cost of production has risen considerably. Since the beginning of 1989, the average per-unit cost of a gold enterprise has risen 100 yuan per teal each year. Moreover, gold enterprises lack the power for further development because of their backward technology, heavy burden in paying back loans, and inability to undertake technical transformation. At present, one-third of the gold enterprises is losing money.

On the other hand, the purchasing price for gold in China is much lower than the international price, while prices of gold ornaments are higher than the international selling price. This has, to a large extent, resulted in widespread smuggling of gold ore. Therefore, in China, the gold market is unified in name only; in fact, it is pluralistic. In name, gold is solely purchased and sold by the state, but in fact it is purchased and sold through many channels, legally or illegally.

It is time special attention is given to the problems of the gold industry. Experts have pointed out that the gold industry will shrink if the existing gold policy remains unchanged. This is because the state's existing management methods for the gold industry are not suitable for the industry in competing in the market. Besides, they restrict the development of the gold industry. Gold production in our country quadrupled between 1976 and 1991. Since the mid-1980s, China's gold output rose 15 percent a year. But in 1992 the growth rate of the country's gold output declined to 8.6 percent. Experts have suggested that the purchasing price of gold should be gradually lifted to make it close to the international price and to enable China's gold enterprises to participate in market competition on an equal basis.

This manuscript has been approved by Xu Daquan, vice minister of metallurgical industry in charge of gold production.

It is signed and issued by Wu Jincai. 20 June.

Statistics on Textile Output in June

HK1907125093 Beijing CEI Database in English
19 Jul 93

[Text] Beijing (CEIS)—Following is a list of the output of textiles in June 1993, released by the State Statistical Bureau:

Item	Unit	6/93	6/92
Yarn	10,000 t	43.15	43.58
Yarn	10,000 pc	240	243
Cloth	100 m.m	16.08	15.61
of:Pure Cotton	100 m.m	10.01	9.13
Chemical Fiber	100 m.m	4.40	1.69
Silk	10,000 t	0.80	0.58
Silk Fabric	100 m.m	2.64	2.13
Woolen Fabric	10,000 m	2269	2453
Knitting Wool	10,000 t	2.10	2.19
Garment	100 m.pc	2.96	2.51

Notes: t—ton, pc—piece, m.m—million meter, m.pc—million piece

Total Industrial Output Value in June

HK1507125093 Beijing CEI Database in English
15 Jul 93

[Text] Beijing (CEIS)—Following is a list showing China's total industrial output value in June 1993, released by the State Statistical Bureau:

(In 100 million yuan)		
	6/93	Change over 6/92 (pc)
Total	3274.5	25.1
Including:		
Light Ind.	1514.5	22.2
Heavy Ind.	1760.0	27.8
State Firms	1653.9	10.0
Collectively Owned Ones	1277.7	45.0
Others	342.9	68.7

Note: The industrial output value is measured in 1990s constant yuan

Output of Main Chemical Products in June

HK1607104093 Beijing CEI Database in English
16 Jul 93

[Text] Beijing (CEIS)—Following is a list of the output of mainchemical products in June 1993, released by the State Statistical Bureau:

Item	Unit	6/93	6/92
Chemical fiber	10,000t	17.62	17.19
Sulphuric acid	10,000t	115.76	128.46
Dense nitric acid	10,000t	4.06	3.24
Soda ash	10,000t	44.47	39.63
Caustic soda	10,000t	34.61	33.19
Ethylene	10,000t	16.33	13.36
Calcium chloride	10,000t	23.47	21.09
Pure benzene	10,000t	5.92	4.68
Synthetic ammonia	10,000t	200.83	201.59
Chemical fertilizer	10,000t	192.09	193.47
(nitrogen)	10,000t	142.62	145.05
(phosphorous)	10,000t	36.23	46.22
(potash)	10,000t	2.45	1.52
Chemical pesticide	10,000t	2.60	3.17
Paint	10,000t	9.28	10.28
Dyestuff	10,000t	1.67	1.56
Pharmaceuticals	10,000t	2.11	2.06
Chinese patent medicines	10,000t		-
Tyre	10,000pc	575.33	530.33
Synthetic rubber	10,000t	3.66	2.81
Film	10,000m	352	1414
(color film)	10,000m	352	1414
Plastics	10,000t	28.39	22.76

Notes: t - ton, pc - piece, m - meter

Output of Mechano-Electronic Products in June

HK1607103893 Beijing CEI Database in English
16 Jul 93

[Text] Beijing (CEIS)—Following is a list of the output of China's major mechano-electronic products in June 1993, released by the State Statistical Bureau:

Item	Unit	6/93	6/92
Power equipment	10,000 kw	228.46	149.92
AC motor	10,000 kw	543.71	445.74
Industrial boiler	ton	9427	9099
Machine tool	10,000 set	2.63	1.89
including:			
nc machine tool	set	984	634
precision machine tool	set	155	181
large machine tool	set	454	361
Automobile	10,000	13.26	9.77
including: truck	10,000	6.02	4.50
Tractor (20hp/above)	10,000	0.34	0.58
Small tractor	10,000	5.43	11.66
Locomotive	set	86	69
including: diesel	set	65	52
steam	set	3	4
electric	set	18	13
Passenger coach	set	126	109
Freight wagon	set	2913	2398
Internal combustion engine	10,000kw	1030.8	818.1
Fishing ship		-	11
Civil steel ship	10,000ton	28.84	16.00
Computer	set	17	27
Micro computer	set	10439	8934
Pocket calculator	10,000set	-	-
Color crt [as received]	10,000	81.41	75.27
Program-controlled switchboard	10,000set	79.59	19.04
Film projector	10,000set	-	0.09

CONSTRUCTION

Hou Jie Outlines New Urban Construction Priorities

93CE0634A Beijing ZHONGGUO JIANSHE BAO
in Chinese 27 May 93 p 1

[Article by Construction Minister Hou Jie (0186 2212):
"Proper Handling of New Urban Construction Will
Promote Economic and Social Development"]

[Text] In the past seven years, preliminary statistics indicate that there are more than 190 cities in China that are county constructed. In addition, in coastal regions and some areas developing rapidly economically, there are also new cities. The number of new cities represents a large proportion of the total number of cities in the country as a whole, and has become a major force pushing China's economic and social development. Therefore, how well the work on these new cities is handled is very important. At present we need to work hard to properly grasp the following points.

- 1) We must put developing the economy in the foremost position. The majority of the new cities have weak economic bases, and the major task before us is the need to put economic development at the center. We must accelerate the development of forces of production, transform the faces of cities, raise peoples' living standards, and promote the overall progress of society. In accelerating the development of the economies of the new cities, we must conscientiously study and implement the important statements of comrade Deng Xiaoping during his southern tour, as well as the spirit of the 14th CPC National Congress, and gradually liberate thinking, accelerate the pace of reform and opening up, and take the "three benefits" as a measure, with the sole criterion being to judge whether each aspect of work does or does not produce losses, and promote a deeper development of each aspect of work. In accelerating the development of the economies of new cities we must also resolutely grasp opportunities. Where conditions exist to develop quickly, we should allow this. Especially in regard to enterprise production, if there are markets, guaranteed quality, and efficiency, we should encourage development. The circumstances of new cities are not the same, regions are different, conditions are different, the foundations are different, and hence the rate of development cannot be the same. It is necessary to be practical and realistic, and according to local conditions decide on development targets, and the rate of development.
- 2) It is certainly necessary to properly handle urban planning. Urban planning is the overall strategy of deployment and space distribution blueprint for a city's economic and social development, and the basis for urban construction and development. It is also the guarantee that a city's economy, society and environment will be harmonious and orderly. Urban

construction involves projects of vital and lasting importance, and if the planning is rational, it will be possible to give full play to a city's social and economic benefits; if planning is not rational, with unthoughtout construction, this will both create serious waste, and inconvenience production and living. The new and developing cities are especially in need of good urban planning. The new and developing cities of 21st century China should have complete facilities, and convenient living, a good investment environment, and be dynamic and exuberant modern cities.

- 3) Strengthening the basic urban infrastructure. Due to the fact that in the past, county towns have been promoted to the status of cities, basic infrastructure conditions have been necessarily somewhat dissimilar in new cities, and it is necessary to acquire a strategic outlook on lead construction for basic infrastructure. The next five years is the key stage in realizing China's second stage of development of strategic goals, and it is necessary to progressively expand opening up, accelerate economic development, and the construction of basic infrastructure must go before the rest. Infrastructure development is an arduous task, and requires sustained hard work on the part of various levels of government, and only then will it be possible to gradually improve the situation. Of particular importance is the leadership of new cities, and in terms of thinking, it is necessary to put infrastructure development at the strategic level of urban development; it is necessary to carry out a unified plan, have orderly construction, and have as guiding principles the need to act according to particular capabilities, and do everything in one's power. In terms of fund raising, it is necessary to adopt the principles of multiple channels and compensation for use, and the state must provide the necessary support, but primarily rely on local effort. At the same time it is necessary to encourage foreign capital, combined investment, shares, and individual capital investment construction of urban public use facilities, and amply use various types of combined capital methods for raising urban construction funds. At present, new cities must pay particular attention to properly grasping water supply, water drainage, communications and road transport development, and creating an excellent investment and living environment.
- 4) It is necessary to expend effort in properly handling agriculture. This is a notable characteristic for new cities that is different from other cities. China's new cities for the most part have been built up from what was originally a county town base, and the urban areas commonly are all comparatively small, while the rural areas surrounding the cities are quite large, with agriculture being a major player. Agriculture is the foundation of the overall economy, and is also the base for the economic development of new cities. At the same time as properly handling agriculture, it is

also necessary to devote effort to handling and properly grasping the development of rural industries. Agriculture, and rural industries, are the two wings of the new cities, and once the two wings have developed, the economies of the new cities will be able to fly. For a comparatively long period of time, it will be necessary to walk the economic development path of having agriculture promoting industry, and using industry to support agriculture. If village planning is good, construction is properly handled, then this will be a major significance for the new cities. Currently, many problems in the village and town-level construction of new cities remain, primarily the lack of planning, disorder in taking land, excessively high standards, and tremendous waste. At present when a farmer has money, the first thing he wants to do is build a house. For some locales, due to an inability to keep pace with planning, construction is chaotic, and some farmers are spending large amounts of money, and the areas where the home's are constructed are very large, but not practical. It is necessary to guide farmers in investing funds in the development of agriculture and in properly handling village and town infrastructure construction. In this manner it will also be possible to accelerate the development of the rural economy, and also to some degree to free up funds for village and town construction.

5) The open areas of new cities must not rush headlong into mass action. A city handling an open area should possess appropriate economic strength, industrial base, basic urban infrastructure, geographical position, personnel quality and various flexible conditions required of an outward looking economy. According to estimates, the construction of basic facilities for a one square kilometer open area, requires approximately 200 million yuan in funds. It is obvious that this figure is not something that local areas and cities can shoulder alone. According to statistics from the relevant departments, at present, in the country as a whole there are already more than 2700 open areas, with a planned area exceeding 150,000 square kilometers, to set up these open areas, will require approximately 40 trillion yuan of investment. This is something that at present exceeds China's financial and material capabilities, and if this is not corrected in a timely manner, it will create irretrievable economic losses. Some new and developing cities, in spite of their own conditions, are blindly forging ahead with open areas, wholesaling land, accumulating funds, going ahead with projects, a situation which will produce few results. This must be given sufficient attention. Speaking of the country as a whole, the new and developing cities should place the primary effort on the development of their own infrastructure, and properly handle various types of basic facility development, and lay the foundation for the economy to soar in the future.

6) New cities must pay attention to handling management. As pointed out in the "CPC Central Committee Regulations on Reform of the Economic

System," "city governments should accumulate strength for properly handling urban planning, construction and management." New cities in a similar manner must concentrate their energy on properly handling these three things. Urban planning, construction, and management are the three major tasks of city government. In having planning, and engaging in construction, it is also necessary to resolutely grasp management. If management is handled properly, it will be possible to give full play to the effects of planning and construction. Urban management is very important work. The governments of the new and developing cities must handle matters in accordance with market economic principles, and concentrate their energy on properly handling urban management. Under the excellent situation of reform and opening up, how to bring various urban project work onto a unified management channel, endow sufficient vitality to the city's overall motion, and have harmony and order, is a very important issue. Using laws to govern the city is the basis of properly handling management. It is necessary to rely on the rule of law, have rules that can be abided by, and to have urban management walk on a path of a scientific socialist legal system. It is necessary to establish that management is a concept of giving service. The basic purpose of city governments is to provide service to the people, hence the starting and stopover points of management must both implement the function of providing service. A city that is well managed is able to give full play to the function of each key element, give full play to the three-into-one integrated effectiveness of a city's economy, society, and environment to supply an exquisite, clean, convenient, and safe working and living environment for people.

AGRICULTURE

Circular Urges Sound Cotton Field Management

OW2207130893 Beijing XINHUA Domestic Service
in Chinese 2111 GMT 14 Jul 93

[Text] Beijing, 15 July (XINHUA)—The State Council recently issued an emergency circular urging all localities to strengthen field management during the middle and final stages of cotton production in order to ensure this year's bumper harvest.

The "circular" states: Since the beginning of this year, governments at all levels have strengthened leadership and implemented some preferential policies and measures to assist cotton production. Consequently, cotton production has taken a turn for the better. Cotton growers, however, are not keen on production because of inadequate fields reserved last autumn for cotton production, the effects of drought in northern China, and the failure by some localities to fully relay relevant policies. This year, cotton acreage has continued to decline significantly. To make matters worse, the serious outbreak of insect pests, especially that of cotton bollworms, has led to a rather gloomy situation in most

cotton-growing regions. Cotton production is now in a crucial stage. Driven by the necessity of preserving cotton acreage, strengthening management, and raising per-unit yields, governments at all levels in cotton-growing regions should devote serious attention to production to ensure a bumper cotton harvest.

The "circular" notes: Governments at all levels in cotton-growing regions should further strengthen leadership over cotton production, improve field management during the middle and final stages of cotton production as the central task in rural economic work, strengthen overall guidance in cotton production, and send capable cadres down to the grass-roots level to help cotton growers solve practical problems pertaining to their production and livelihood. They should maintain an adequate supply of vital raw materials for agriculture-oriented industries. Relevant departments should make proper arrangements for the production of chemical fertilizers, pesticides, and other materials, in order to ensure adequate supplies of agriculture-related means of production. They should raise procurement funds in a timely manner and ensure full payments for cotton purchases without issuing IOUs. They should further restore order in the market for agriculture-related means of production and strictly prohibit the practice of indiscriminately raising prices.

The "circular" urges: All cotton-growing regions should maintain the size of acreage sown to cotton this year, improve management during the middle and final stages of production on all cotton fields, combat all kinds of disasters, halt the practice of pulling out or destroying cotton seedlings, and take effective steps to increase output and income in the middle and final stages of cotton field management and in all stages of harvesting, storage, and transportation.

The "circular" says: We should continue the campaign to prevent and control cotton bollworms. Relevant departments expect a major outbreak of third-generation bollworms because of the relatively large number of surviving second-generation bollworms. Effective prevention and control of third-generation bollworms is central to this year's bollworm prevention and control; it also holds the key to this year's bumper cotton harvest. Governments at all levels should make careful organizational arrangements and plans to ensure success in relevant work. We should encourage service organizations specializing in plant protection to fully perform their functions, to provide accurate and timely forecasts, and to arrange unified prevention and control on a wide scale. We must also stress safety in applying pesticides.

The "circular" states: All cotton-growing regions should focus on improving cotton field management in July and August, and devote substantial time and energy to raising per-unit yields. As a disaster relief effort, governments at all levels must adopt effective measures to strengthen field management in the middle and final stages of cotton production. We should provide detailed guidance appropriate to local conditions and specific

seedlings, and ensure adequate supplies of fertilizer and water to prevent cotton plants from failing prematurely. We should thoroughly implement plans designed to promote bumper cotton harvests and strive to raise per-unit yields. Relevant cotton-growing regions should make full preparations—in terms of materials and contingency technical measures—for typhoons, autumn rains, early frost, and other disasters. Governments at all levels should fully engage scientific and technical personnel in applying science and technology to cotton production, improve technical training and guidance, and implement all output-boosting measures to the letter, in order to ensure this year's bumper cotton harvest.

Liu Jiang on Increasing Peasant Income

93CE0527A Beijing ZHONGGUO NONGYE KEXUE
[SCIENTIA AGRICULTURA SINICA] in Chinese
No 1, 30 Apr 93 pp 1, 4

[Article by Liu Jiang (0491 3068): "Increasing Peasant Income Is the Key To Achieving a Fairly Comfortable Living Standard in Rural Areas"]

[Text] The party Central Committee and the State Council attach great importance to achieving a fairly comfortable living standard for the rural areas, because in the process to reach the second-stage strategic goal of China's modernization by the end of the century, whether the living standard of the peasants, who make up 80 percent of China's population, can be raised to a fairly comfortable level is of decisive importance, and because the key and difficulty to achieving a fairly comfortable living standard for the whole nation lies in the rural areas. In the 1980s, the rural economy developed by leaps and bounds, and the peasants' living standard improved considerably. At present, however, the agricultural base is still weak, the rural economy still anemic, and the peasants' living standard still very low. The great majority of peasants have only recently been lifted out of poverty, and nearly 40 million of the rural population still do not have enough food and clothing. The rural economic management system and operational mechanism are still irrational in many ways, obstructing faster rural economic development and greater increase in peasant income. Under the circumstances, it is very difficult for the masses of peasants to reach a highly comfortable living standard in the remaining short period of the 1990s. Therefore, an appropriate standard of comfortable living for the rural areas must be set according to the actual conditions in China at present, neither too high nor too low. If too high, it is unattainable; if too low, it is unattractive to the peasants. We think that a fairly comfortable living standard for the rural areas is indicated mainly by the following: on the basis of all-round development of the rural economy, there should be a marked increase in peasant income, a fairly plentiful material life, a healthy and rich spiritual life, improvement in the quality of the peasants, environmental improvement, a constantly improving social insurance system, and a social condition of stability and unity.

A marked increase in the per capita net income of peasants is the most important precondition for achieving a fairly comfortable living standard in the rural areas. Based on what is required for a fairly comfortable living standard and what is possible in rural economic development, we suggest that the peasants' per capita net income be increased to 1,200 yuan by the year 2000. This is not only imperative, but also achievable with efforts. First of all, it is quite appropriate to make raising the peasants' per capita net income to about 1,200 yuan an important sign of the achievement of a fairly comfortable living standard in the rural areas. It will mean considerable improvements in all aspects of the peasant's life. For example, compared with 1990, the amount spent on food by the peasants will be increased by more than 51 percent; the Engel's coefficient will drop from 58 percent to about 50 percent; and the amounts spent on clothing, housing, daily necessities, and non-commodity consumption will all show notable increases, roughly meeting the demands at the lower level of a fairly comfortable living standard. Second, from the possibility viewpoint, to raise the peasants' per capita net income from 686 yuan in 1990 to 1,200 yuan in 2000 requires an annual growth rate of 5.8 percent, which is much higher than the actual growth rate of 2 percent in 1991, but still lower than the average annual growth rate of 6.3 percent from 1981 through 1990. In 1992, the peasants' per capita net income went up by 5.9 percent. It is obvious that although very difficult, the goal of raising the peasants' per capita average income to 1,200 yuan by 2000 is still achievable, if we strive hard to push the growth rate in the next seven years close to the level of the 1980s.

Because economic development is uneven in China, the peasants' habits and customs, consumption levels, and price levels differ considerably from area to area. With the same income of 1,200 yuan, the quality of life will be different in different areas. Therefore, the income level required for a fairly comfortable living standard can also be different. For this reason, in determining the levels of peasant income, we divided the whole country into three typical regions. The first typical region includes the economically developed areas and the suburban areas of large- and medium-sized cities, where the per capita income should be raised to about 1,500 yuan; the second typical region is the moderately developed areas, where the per capita income should be raised to about 1,200 yuan; and the third typical region is the economically underdeveloped areas, where the price level is also low, and the goal of per capita income can be set lower, about 1,000 yuan, at which level the region can be considered having attained a fairly comfortable living standard.

The effort to achieve a fairly comfortable living standard for the rural areas should be focused on increasing the peasants' per capita net annual income to 1,200 yuan.

This is a key indicator. To achieve this goal, we must broaden sources of income and reduce expenditure. By broadening sources of income, we mean to vigorously develop the economy and make the distributable pie

bigger. By reducing expenditure, we mean to try to reduce the peasants' losses and let them keep what belongs to them in the first place.

In broadening sources of income, we should focus on two major tasks. The first major task is to develop the economy in an all-round way and strive to increase the speed of development so that the rural economy as a whole can be raised to a new level. According to an analysis of the factors relating to the speed of rural economic development and growth of peasant income in the 1980s, to achieve the goal of raising the peasants' per capita net annual income from 686 yuan to 1,200 yuan, agriculture and the town and township enterprises must maintain an average annual growth rate of 3.9 percent and 15 percent or more respectively during the 1990s.

In view of the development needs in all fields of production, we must as always pay attention to agriculture. Agriculture is the foundation of national economic development and also the foundation of a fairly comfortable living standard for the rural areas and the country as a whole. We must strengthen this foundation and vigorously develop a high-yield, high-quality, and highly efficient agriculture. In the course of progress from having enough food and clothing to a fairly comfortable living standard, agriculture has two important tasks. One is to provide sufficient agricultural and sideline products of good quality to meet the needs of a fairly comfortable living standard. The other is to increase the peasants' income from agricultural production to 610 yuan or more. For this reason, we must from now on pay close attention to two key tasks in agricultural development. First, we should step up basic agricultural facilities construction and comprehensive agricultural development so that the overall agricultural production capacity can be raised to a suitable level to insure that the per capita consumption of major agricultural products will reach the level needed to maintain a fairly comfortable living standard by the year 2000. Second, based on the needs to raise the living standard of both urban and rural residents to a fairly comfortable level, it is necessary to readjust the agricultural structure, vigorously develop a high-efficiency agriculture to produce better economic results, and enable the peasants to earn more money as much as possible from agricultural production. In the 1990s, about one-third of the projected increase in peasant income will have to come from developing a high-yield, high-quality, and high-efficiency agriculture. Moreover, we should make full use of the international and domestic markets by developing highly competitive, foreign-exchange-earning agricultural production. Efforts should be made to constantly improve product quality and sanitary standard, actively compete in the international market, and strive to win a bigger share of the international market and earn more foreign exchange through export.

An important way to increase peasant income and achieve a fairly comfortable living standard in the rural areas is to develop rural secondary and tertiary industries. More than 60 percent of the projected increase in

the per capita net income of peasants in the 1990s will have to come from developing rural secondary and tertiary industries. It is imperative to speed up their development and expand the sources of income for peasants. In macroeconomic guidance, the emphasis is to improve the environment for the development of rural secondary and tertiary industries, facilitating the rational circulation and optimum distribution of the production factors, enabling rural products and peasant laborers to enter smoothly into urban and rural markets, and thus expanding the development space for the rural secondary and tertiary industries. For this reason, we should conscientiously implement the principles and policies already established by the state to encourage the development of the rural secondary and tertiary industries. From now on, agricultural and sideline products processing industries that are suitable to be located in rural areas should to the extent possible be located in rural areas, and cities should in principle refrain from increasing the processing capacity for these agricultural and sideline products. The agricultural and sideline products processing enterprises in cities now should also gradually move to rural areas. Peasants should be encouraged and supported to get into circulation and various service trades, set up combined agricultural-industrial-commercial production and business organizations, effectively integrate the production, processing, and marketing links, and increase their income from each link. While expanding the external development space for the rural secondary and tertiary industries, it is also necessary to actively readjust their internal structure and raise their overall development level. The secondary industry should try to develop new trades and new products. While continuing to encourage and support the rural town and township enterprises and other production and business organizations to develop agricultural and sideline products processing and to engage in exploiting and processing of local natural resources, vigorous efforts should also be made to develop new trades and new products needed by the national economy and the people and high-tech, high-added-value, and export-and-foreign-exchange-earning industries to compete in the international market. In the tertiary industry, priority should be given to developing before-, during-, and after-production service trades for agriculture and service trades needed to improve the peasants' life. On this basis, efforts should be made according to local conditions to encourage peasants and production and business organizations to exploit tertiary industrial resources in rural areas and develop rural tourism, real estate, consultation, and information trades. It should be pointed out that the widening field of the peasants' spiritual activities, the improvement of their living environment, and the development of social welfare services will create increasingly more opportunities for the development of tertiary industry in the rural areas. All places should seize the opportunity to promote the development of rural tertiary industry.

To raise the level of China's rural economic development as a whole, we should further readjust the regional

economic structure and layout. China is a big country, and economic development is uneven among its different regions. Every region has the potential for accelerated economic development. If all regions can move up from their present levels, the national economy as a whole will move up correspondingly to a new level. In the 1990s, the developed regions should make fuller use of their advantages in trained manpower, financial strength, and transport facilities to actively develop high-quality and high-efficiency foreign-exchange-earning agriculture; vigorously carry out the technological transformation of town and township enterprises and raise the quality and grade of their products to a new level; and further expand the proportion of the tertiary industry to the rural economy as a whole, produce better economic results, and increase the peasants' net income. The border regions, while maintaining steady agricultural growth, should take advantage of their relatively abundant natural resources and favorable conditions for border trade to more energetically expand the secondary and tertiary industries in rural areas, develop local and special products and products with national characteristics, promote border trade, and increase peasant income. The macroeconomic policies for developing town and township enterprises should tilt favorably toward the central and western regions, and appropriate preferential policies should also be enacted to provide necessary support in credit and funds. Major grain-producing regions should be helped to develop secondary and tertiary industries to change the one-product economic structure and enable the peasants in these regions to become well-to-do as quickly as possible, and all other regions should also proceed from the actual conditions to give necessary support to regions of a one-crop economy of grain or cotton. Efforts should also be made to guide the developed regions to develop horizontal economic ties with the central and western regions and provide them with needed support. With regard to the poor regions, the state, while continuing the existing support policies, should enact additional preferential policies to provide stronger support and speed up the process of lifting these regions out of poverty. In supporting the poor regions, the emphasis should be placed on helping these regions to develop a commodity economy and raising their economic development to a higher level. To bring into full play the advantage of the poor regions in natural and labor resources, it is necessary to start a number of key support projects to stimulate economic development in the poor regions and help the poor regions catch up with the rest of the country's rural areas in the drive to achieve a fairly comfortable living standard.

The second major task in expanding sources of income is to open up a wide range of new channels for employment and create more job opportunities for the surplus rural labor force. Labor and employment is an important source of income for peasants. At present, China's surplus rural labor force stands at about 130 million people, and calculating according to the data of the fourth nationwide census, the surplus rural labor force will

increase by another 100 million or so in the next 10 years. To create job opportunities for the more than 200 million strong surplus rural labor force is an arduous task in our effort to achieve a fairly comfortable living standard for the rural areas.

From now on, the surplus rural labor force must be regarded as a major problem in rural development and national economic and social development as a whole to be studied and solved. We must do a good job in putting the surplus rural labor force to work as we did the urban unemployed.

To solve the problem of surplus rural labor, we should adhere to the policy of "leave the farm, but remain in the countryside," a policy with Chinese characteristics, vigorously develop the rural economy, expand the development space for rural industries, and enable the great majority of the surplus labor force to find jobs in the rural areas. The experience of the economically developed eastern regions has shown that as the rural economy grows, the peasants will find more and more employment opportunities, and the surplus rural labor force will become smaller and smaller, even run short. Therefore, the fundamental way out for the surplus rural labor force is to develop the economy. From now on, major efforts should be made in two directions. One is to vigorously develop labor-intensive secondary and tertiary industries, which are suited to rural conditions, to provide more jobs. The other is to develop the rural economy in breadth and depth. A tentative idea is to provide jobs for 110 million people through development of secondary and tertiary industries in the rural areas and about 100 million through agricultural development in breadth and depth in the 1990s.

We should open up all possible employment channels for the surplus rural labor force. First of all, we should open up the labor markets in cities at and above the county level in a planned way and allow the surplus rural labor force to work in cities where they are needed. At present, a large number of surplus rural laborers are already in cities working on textile, construction, environmental sanitation, restaurant, housework, and other jobs. With the increasing employment opportunities for urban residents and the changing work concept, a lot of the hard, dirty, tiring, and dangerous jobs in cities will be turned over to rural labor. Opening up these labor markets in a planned way will not have any major impact on the employment of urban residents. If needed by urban enterprises and approved by the labor department, the rural laborers should be allowed to register as temporary city residents. Peasants working permanently on regular jobs in cities should be allowed to settle in the cities after a specific length of time, say, five or 10 years. Because these people have lived and worked for a long time in the cities with steady jobs and income and have contributed to urban development, the solution of their residence problem will enable them to work without worry, which is in the interests of all concerned. Second, guidance should be given for the rational

movement of rural labor between regions. Because of their different levels of economic development, the coastal and inland regions also differ greatly in their ability to absorb surplus rural labor. At present, some economically developed regions on the east coast already have a labor shortage. The inland regions can organize regional labor exchanges by signing labor supply agreements with the coastal regions and in other forms, which will be conducive to promoting the interflow of human, financial, material, and informational resources and economic development between the regions. Third, vigorous efforts should be made to open up the international labor market. At present, there is a considerable labor shortage in Japan, the CIS, the Middle East, and other countries and regions, which can absorb some of our rural labor. The Chinese people are diligent and willing to do hard work and enjoy a very good reputation in the international labor market. We should actively promote export of services through both government and nongovernment channels.

To speed up the transfer of surplus rural labor, we should, in addition to actively reforming the present management system, also make a great effort to improve the labor quality of the peasants, including enhancing their scientific and cultural level and vocational work skills.

While expanding sources of income, it is also necessary to reduce expenditure. In the past few years, agriculture and the rural economy have developed rapidly, but the peasants' real income has increased very little, even decreased in one or two years. One problem is the irrational prices. The values created by the peasants are transferred elsewhere. Another problem is the blocked circulation links, which make it difficult for the peasants to turn their products into money. Particularly serious is the fact that peasants are not paid in cash for the products they sell. There are also all kinds of taxes and fees, which further reduce the peasants' income.

To reduce the peasants' burden and insure steady growth of their real income, it is necessary first of all to further rationalize the proportional relationship between industrial and agricultural products, narrow the "price scissors" between industrial and agricultural products, change the irrational prices which lead to the transfer of values created by peasants to urban industries, and reduce the peasants' burden in "making agriculture support industry." From now on, we should gradually establish a proportional relationship between industrial and agricultural products based on the average social profit rate and rationalize the price relations between industrial and agricultural products. The stress should be placed on rationalizing the price ratios between industrial and agricultural products represented by chemical fertilizers and grain, so that a rational ratio can be established between the prices of grain and chemical fertilizers. Second, we should create conditions and encourage peasants to go directly to the market and lessen the effect of blocked circulation links on their income. Third, state taxes should be stabilized. Fourth,

firm measures should be adopted to limit the aggregate burdens on peasants to 5 percent of their per capita net annual income.

Speed up the development of small rural cities and towns and build the necessary basic facilities for a fairly comfortable living standard in the rural areas.

We think that one of the major choices on the road toward rural modernization in China is to speed up the development of small rural cities and towns so that hundreds of millions of peasants can leave the farm but remain in the countryside and enjoy the same kind of modern and civilized life as urban residents. A tentative idea is to build step by step a number of small modern cities and towns, which have prospering secondary and tertiary industries and a whole range of services and can accommodate a specific number of permanent residents, in principle around the sites of the present rural town and township governments. At present, there are more than 10,000 towns and 40,000 townships in China, which are the political, economic, and cultural centers of the rural areas. Most of the towns and townships are rather small and have great potential for development. If, beginning in the 1990s and through several decades of diligent effort, these towns and townships can be built step by step into small modern cities and towns as described previously, it will have a far-reaching impact in changing the face of the countryside and achieving a fairly comfortable living standard for the rural areas.

To spur the development of small rural cities and towns, attention should be paid to solving three key problems. First, based on good rural development plans, the rural secondary and tertiary industries should be guided to move gradually to the small cities and towns and form relatively concentrated, stable industrial groups, which will not only stimulate the growth of the small cities and towns, but also change the way town and township enterprises are scattered in every village. From now on, town and township enterprises should be developed around the seat of the rural town and township governments or sizable market towns according to local conditions, and then small cities and towns can be built with the backing of the town and township enterprises. The central and local governments should support this type of development with preferential policies. At present, useful attempts have already been made in some places. Some have developed small rural industrial districts with town and township enterprises as the centers, and some have formed development companies to build peasant cities and attract peasants to set up businesses there. Their experiences show great promise. Second, vigorous efforts should be made to raise construction funds and step up the construction of basic facilities. To enable the small rural cities and towns to support industrial development, accommodate a growing population, and provide a complete range of services, it is necessary to make sure that these small cities and towns will have good transport, communication, water, and power utilities, relatively complete commercial, financial, medical, educational, and technical service systems, and cultural,

sports, and recreational facilities. To raise construction funds, consideration can be given to the following: 1. Rely mainly on peasants to raise funds. Encourage some peasants, who have become well-to-do before others, to move into the small cities and towns and invest in building basic facilities. 2. Open a real estate business in the small cities and towns. Start housing developments in the small cities and towns, sell houses to peasants, and attract peasants to come and engage in business activities. Development funds for the small cities and towns can be raised by advance-sales of storefronts and homes. 3. Set up a special fund with bank loans to be used as starting capital for the development of the small cities and towns, and the money can be used repeatedly on a revolving basis. Third, it is necessary to reform the present economic and administrative systems so that the economic factors can flow rationally according to the development needs of small cities and towns. In 1992, the State Planning Commission selected 100 small cities and towns in China to conduct a comprehensive experiment, which has been regarded favorably by all concerned. This year the commission will continue to support the development of small cities and towns in the major grain-producing regions to change the single-crop economic structure of these regions.

To push rural modernization forward, it is also necessary to carry out two basic tasks throughout the country. First, it is necessary to strengthen basic facilities in rural areas, including mainly transport, communications, water, power, medical, old-age care, and other service and health facilities and also cultural, educational, and publishing facilities, radio and television stations, and places for sports and recreational activities. Second, efforts should be made to strengthen the basic systems for rural life and progress, including the compulsory education system, cooperative medical service, social insurance system, collective accumulation system, and so forth to provide the masses of peasants with old-age care, medical service, and timely relief in case of disasters.

To achieve a fairly comfortable living standard for the rural areas by the year 2000 as planned, it is necessary to mobilize all the forces and bring the enthusiasm and creativity of all peasants into play. All regions should formulate plans and adopt necessary policies and measures based on local conditions to insure that the overwhelming majority of peasants in each region will achieve a fairly comfortable living standard by the scheduled time. Governments and departments at all levels should actively improve their work and strengthen guidance and services for the rural areas to achieve that goal. The rural basic-level organizations in particular have the task to directly organize and lead the masses of peasants in achieving a fairly comfortable living standard, and they should strive even harder to strengthen themselves, be active and progressive, and play a proper role in the drive to achieve a fairly comfortable living standard for rural areas.

Peasant Income Lags Behind Other Sectors

93CE0612D Beijing JINGJI CANKAO BAO in Chinese
30 May 93 p 1

[Article by Nong Ke (0309 2688): "How Rich Are the Peasants? Their Income Increased Slightly, But Lagging Behind Other Sectors"]

[Text] Information released by the Agricultural Ministry indicates that rural income in China showed a growing trend in 1992, ending a three-year period of fluctuations: The average income of peasants was 693 yuan (counting only income from various production activities, and excluding transfer payments to the peasants), an increase of 92 yuan over the year before, and adjusted for price rise and other such influences, an increase in real terms of about 6 percent.

On the matter of increased rural income, analysis of the Agricultural Ministry suggests that development of non-farm enterprises was the main factor in increased rural income. Farming per se is no longer the main source of rural income. Take the additional 92 yuan of rural per capita income: 75 percent of it came from nonfarm activities and only 25 percent from agricultural production, and in the latter figure, only 9.8 percent from farming per se. It can therefore be seen that China's rural economic development is entering a new stage. If peasants are to become relatively well-off by the end of this century, the structure of rural income must change from one based on farming income to one based on nonfarm activities, for this is the inevitable consequence of economic development. At the same time, one can see that in agriculture, the rate of income increase from farming is slow, suggesting that peasants who rely on farming as their main source of income will find that their standard of living has not appreciably increased.

Regional differences in rural income growth in 1992 continued to widen further, and this has become of concern to many. Provinces where the rural per capita income growth was rapid are those concentrated in the eastern and coastal regions of China. In areas where grain and cotton are grown as well as in the border areas, the rate of rural income growth was generally below that of the national average. In 1992, the rural per capita income in the eastern region is 1.48 times that of the central region; and when peasant income in Western and Eastern China are compared, the 1990 ratio of 1 to 1.71 has increased to 1 to 1.91; the regional differences have become perfectly obvious.

According to data from China's Statistics Bureau, there is great disparity between the rates of growth in China's industrial versus agricultural sectors, the ratio being 5.6 to 1; the fact that industrial and agricultural developments are not in step has of course resulted in the different rates of income growth between residents of urban areas and those in rural areas. The gap in urban-rural income has continued to widen during the past seven years, and in 1992 the gap widened further to a ratio of 2.51 to 1. The urban-rural disparity is even

greater in terms of the level of consumption. In one quarter this year, retail sales of consumers goods in urban areas totalled 164.8 billion yuan, an increase of 24.7 percent over the same quarter last year; but with development of rural markets lagging, retail sales of consumers goods at the county and below level totalled 116.4 billion yuan, an increase of only 8.4 percent. If adjusted for price rise and other such factors, there has hardly been any increase in rural consumption level.

The Agricultural Ministry's analyses indicate that the increasing disparities in income and consumption between urban and rural residents mean that the differences between the two sectors of society are widening. The slow rate of income growth among peasants and the weak and ineffectual rural markets have hampered the development of a stable and improved environment for the national economy. Departments with macro decision-making responsibilities in all levels of government should attach great importance to the trend and changing pattern of urban-rural income, for correct policy and implementing measures must be based on a realistic appraisal of the rural income level and an appropriate determination of whether the peasants are truly well off.

Compared to the pre-reform period, China's peasant income level has of course been raised considerably, but viewed from an overall perspective, the peasants cannot be considered well off, as they have only solved the basic problems of food and clothing. In the context of an accelerated movement toward a market economy, the problem of peasant income is one to which people must give a great deal of attention whether with respect to the relationship between farm and nonfarm incomes, the regional differences or the increasingly wide gap between the urban and rural sectors of society.

Update on Early Rice Situation, Problems

93CE0648A Nanning GUANGXI RIBAO in Chinese
9 May 93 p 1

[Article by Pan Dingjian (3382 1353 1017): "Responsible Person in Autonomous Region's Department of Agriculture Discusses Remedies for Early Paddy Production in the Region. Early Fertilization and Early Control To Remedy the Four Deficiencies"]

[Text] What is the status of the region's early crop today in the wake of efforts by the far-flung cadres and masses in fighting drought to rush the transplanting of paddy seedlings? A few days ago, a responsible person in the autonomous region's Department of Agriculture told the correspondent in an interview that the overall grain production situation in the region is still good, but that existing problems are fairly pronounced. He hopes that all jurisdictions will act as the situation warrants to spark a rapid upsurge in field care to ensure increased output from a bumper summer grain harvest.

Statistics show the transplanting of 10,027,200 mu of early paddy throughout the region as of 1 May. This is 60.45 percent of guidance plan, and about 680,000 mu less than

during the same period in 1992. However, thanks to the fairly plentiful recent rainfall, all areas are urgently rush transplanting, and it is expected that they will quickly complete spring transplanting. The responsible person emphasized that we must still clearly realize that there are four problems in the region's grain production that are fairly prominent. One is that some counties (and cities) reduced the grain growing area too much. The second is that the spring transplanting season has been delayed 10 days or more in some counties (or cities). The third is a marked decline in the spread of farming techniques in quite a few counties (or cities). This includes a more than 70 percent reduction over the same period in 1992 of the area in the region using plastic mulch for the growing of corn; and a slide in the extension of the hybrid paddy, ridge farming, and high yield test fields area in quite a few places by as much as about 50 percent over the same period in 1992 in some areas. Fourth is the crude farming of some fields, insufficient basic fertilization, and late tillering of seedlings after transplanting because of the effects of the earlier drought.

How can these real problems be solved to ensure an increased output from a bumper summer grain harvest? The responsible person pointed out that the key lies in close attention to field care, doing all possible to increase per unit yields as a means of remedying the effects of the foregoing several deficiencies. He said that the Department of Agriculture is currently holding a meeting of agricultural bureau directors from all over the region. They have provided specific ideas applicable to the existing situation, and they ask that all jurisdictions pay attention to the following: Field care must be done early. Fertilization must be done early, weeding must be done early, and replanting of gaps must be done early. For fields that were transplanted relatively late, that were fairly roughly cultivated, and that were insufficiently fertilized, in particular, follow-up fertilization should be done early to promote rapid growth and early tillering of seedlings. Leaf fertilization, mostly spraying, application and bao [pen shi bao 0899 2457 1405] should be extended everywhere, three sprays used in a single attack. Grain production base counties and grain production key counties (or cities) must provide some operating expenses to help spread leaf fertilization; and they must make prevention and control of insect pests a part of the whole process of field care. Plant protection units must become fully involved in monitoring and reporting on crops to guide the peasants in prompt extermination of crop diseases and insect pests in their incipient stage. Leaders at all levels in agricultural units must acquaint themselves thoroughly with the situation, and investigate and study to become good staff officers for the local CPC committee and government.

Bank Adopts Measures To Ensure Funds

93CE0612A Beijing JINGJI CANKAO BAO in Chinese
2 Jun 93 p 1

[Article: "Industrial and Commercial Bank Affirm Its Chief Mission Today: Ensure Capital Available for Procurement of Agricultural, Sideline Products and for Government's Key Construction Tasks"]

[Text] The Industrial and Commercial Bank's chief mission today is to meet the capital requirement for procurement of agricultural and sideline products, and support the government's key construction tasks. The bank headquarters has mobilized personnel in all branch banks to stabilize and increase the level of deposits, and standing firmly on this foundation and focusing on internal operations, to build up the capital needed for procurement of agricultural and sideline products, and support major construction tasks.

With the major objective of insuring adequate food supply for residents of cities and towns, the bank makes loans and extends credit for grain, including buying and selling, allocation, transportation, and storage of grain and edible oil, as well as for processing sideline products and imports. Up to the end of April, the bank has extended grain credit totalling 35.8 million yuan, loans for contract downpayment totalling 290 million yuan, and because of the bank's management scale and capital base, the grain enterprises holding accounts in the bank can purchase grain directly without resorting to the use of IOUs. While supporting the procurement of agricultural and sideline products, and the government's key construction tasks, the bank also channels credit to a basic enterprise, that of railroad construction. Prior to June this year, a line of credit of 2.7 billion yuan reserved for the construction of the Beijing-Kowloon railroad was in place, and at present 2 billion of it has been released to ensure that work on the railroad will begin as scheduled.

To solve the contradictions of credit capital shortage, the bank is determined to take several measures:

- Stabilize and increase deposits; promote a variety of financial products, and modernize rapidly the techniques of raising capital, including raising capital from the open market.
- Strictly control and liquidate outstanding loans, particularly those that do not conform to regulations or policies of the enterprises. Provide concrete assistance to the enterprises to strengthen their management and gradually liquidate all outstanding debts in the old accounts. New accounts on credit will not be permitted this year while the bank strives to increase its capital input.
- To ensure the supply of capital for procurement of agricultural and sideline products, first, apply specialized management to the grain credit operation, and continue to set a target of 6 billion yuan for sideline products procurement. Second, establish in the regional and city branch banks accounts with funds earmarked for grain purchase. Third, to regulate the available money supply for peak season procurement, set aside at the provincial and county branch banks the necessary amounts of capital for use as emergency funds to regulate the purchase of grain at peak season.
- Give special emphasis to ensure that the capital need of railroad construction will be met. Every branch bank should effect timely transfer and remittance of funds in

the railroad accounts, and cannot delay the transfer or use the funds as collateral for any purpose. Branch banks will not be permitted to divert or channel the funds in special capital accounts to other uses.

Prices of Production Material Continue To Rise

93CE0579C Beijing NONGMIN RIBAO in Chinese
16 May 93 p 1

[Text] According to an investigation team of the Agricultural Ministry, prices of agricultural production materials are still rising at present.

An investigation of Ningxiang County by the Hunan team indicates that compared with the same period last year, the price of carbamide has risen by 9.09 percent, carbonic ammonia by 14.71 percent, and farming diesel oil by 46.88 percent, respectively. The Gansu team learned from Heishi town of Gaolan County that compared with the same period last year, the price of nitric ammonia has gone up 39 percent, carbamide by 33 percent, plastic film by 5 percent, and diesel oil by 65 percent respectively. The price hike of agricultural production material has become endemic, and peasants have been reacting strongly to the problem. Peasants from Hunan believe that they have been overcharged (price hikes for production material), and have not got what they should have got (extra pay for the price of product). Peasants from Sichuan have complained that the price hike of production material constitute the greatest burden out of all unreasonable burdens.

GATT Offers Challenges to Farm Machinery Industry

93CE0613A Beijing NONGYE JIXIE [FARM MACHINERY] in Chinese No 3, 18 Mar 93 pp 4-5

[Article by Lu Zehe (7120 0463 7729), office of engineering and agricultural machinery, Ministry of Machine Building and Electronic Industry: "GATT Potential Impact on Farm Machinery Industry"]

[Text] The resumption of China's status as a signatory to GATT is a popular conversation topic these days as well as a major event in China's economic life. It is generally agreed that the event will present both a challenge and an opportunity to China's economy. What will be its impact on the farm machinery industry?

Accession to GATT Inevitable Outcome of Reform and Open Policy

GATT is one of the three main pillars of the global economic system, the others being the IMF and the World Bank. Currently bilateral trade between GATT member nations accounts for 90 percent of total world trade. As China is already the 10th largest trading nation in the world, it is hard to imagine how it can obtain an even more favorable international trade climate while remaining outside the GATT trading system. The restoration of China's status as a signatory to GATT would

fully integrate its economy into the world economy. It is also what we pin our hopes on for the success of our strategy of reforming the Chinese economy into the great international circle. On the other hand, the resumption of China's status as a member nation of GATT will require us to reform the Chinese economy so that it becomes compatible with GATT. Most importantly, it will require us to introduce a market economy and adopt a trading system that promotes free competition and fair trade. Accordingly, there is an intimate relationship between the restoration of China's status as a signatory to GATT and the drive now under way in China to continue economic reform. Only by looking at accession to GATT this way can we truly appreciate and face up to the impact of rejoining the trading system.

Fully Understanding "Challenge" and "Opportunity"

It is generally agreed that rejoining GATT is both a challenge and an opportunity. However, we absolutely must not look at the two results in isolation and think of "challenge" as a purely negative thing and "opportunity" as completely positive. Nor is it appropriate to look at it purely from the angle of international trade. Instead, it should be said that as a challenge to us, rejoining GATT has both pros and cons. The consequences and effects of rejoining GATT have implications for the fortunes and survival of every enterprise, every industry. For instance, before China rejoins GATT, some enterprises only compete with other domestic enterprises. After China rejoins GATT, their competitors will include foreign companies. In the past, some enterprises enjoyed a monopoly at home, secure in the knowledge that they had no competition despite their technological backwardness. In the future, foreign enterprises will enter the Chinese market and put an end to the monopoly. Some enterprises have been teetering on the brink of collapse because of a saturated domestic market. In the days ahead, they will have a chance to test themselves on the international market.

From the perspective of market competition, whether you are talking about the foreigner who wants to export to China or the Chinese enterprise which wants to sell abroad, the winner is the one who can offer low prices, good performance, superior quality, and impeccable service. Rejoining GATT brings to the Chinese economy new competition and more competition, which means new and increased pressure. "Facing up to the challenge," like "grasping the opportunity," can inspire us to excel. If we think strategically like this, what should worry those of us who want to revitalize the farm machinery industry is not the entry of foreign machinery into the Chinese market, but the absence of such machinery from the Chinese market. This is because foreign pressure may just be the very thing we need to cure China's farm machinery industry of a chronic ailment: lack of change for decades. Witness how some enterprises, challenged by border trade, are rousing themselves to do better. Taking the long-term view, we should welcome the entry of advanced foreign farm machinery into the Chinese market.

Remote Possibility of Massive Influx of Foreign Farm Machinery Into China

Protection versus anti-protection has always been the flashpoint in international trade. It applies to the negotiations over China's accession to GATT as well. After China rejoins GATT, it will abolish the import permit system and export subsidies and quotas, administrative measures that constitute nontariff barriers, other than a tiny handful of exceptions agreed upon in the "protocol." Among tariff barriers, the only means of protection allowed under GATT, China has abolished the import regulation tax and will scale back tariffs on the vast majority of commodities drastically on a one-time basis to the low tax level of developing nations. Therefore more foreign commodities will inevitably enter the Chinese market.

As a market for farm machinery, China has enormous potential. Thus it is only to be expected that foreign companies will eye it covetously. By and large, accession to GATT will open the door for foreign farm machinery companies interested in entering the Chinese market. Be that as it may, China's rural economy is still underdeveloped. Since the per capita annual income among peasant households, the principal users of agricultural machinery, is less than 800 yuan, their purchasing power is extremely modest. In the past several decades, the government adopted a low-price policy toward farm machinery in order to aid agriculture. In addition, labor is inexpensive and the machines being turned out by the domestic industry are structurally fairly simple. As a result, our farm machinery has far lower production costs and commands far lower prices than comparable products made overseas. China's farm machinery enterprises are operating on a very slim margin of profit. In the wake of economic reform and the open policy, the low prices of farm machinery should be gradually adjusted. For the moment, however, enterprises would like but cannot afford to raise prices because of peasants' very low purchasing power and competition with other enterprises. This applies to such machinery as single-cylinder diesel engines, walking tractors, and small four-wheel tractors. For all these reasons, the bulk of the high-performance and high-priced farm machinery made in developed nations would have a hard time entering the Chinese market en masse in the foreseeable future.

The Danger of Sitting Back and Relaxing

The price advantage of domestic farm machinery is not immutable, however. As the market economy matures, the low prices of farm machinery will be hard to sustain. It is part of an inevitable trend for the prices of farm products to go up and peasants' purchasing power to increase. Through competition among farm machinery enterprises, from which the strong will emerge a winner and in which the weak will be weeded out, prices of farm machinery also are bound to go up. To spur agricultural development, it is a strong possibility that the state will subsidize farm machinery purchases by peasants, something already being done in most developed nations. At

the same time, the resumption of China's status as a signatory to GATT will put foreign firms in a better position to understand the Chinese market, and with their formidable product development capability, develop structurally simpler farm tools suited for the Chinese market. Furthermore, foreign firms can take advantage of China's inexpensive labor and build plants or set up joint ventures here in a bid to make their products more competitive. The conditions relied upon by China's farm machinery enterprises to corner the domestic market will change. Enterprises that remain apathetic to these changes and fail to take them seriously or gear up for action in a hurry will put themselves in grave danger.

There are regional differences in the level of development of the Chinese economy. Some users in the economically more developed areas, including the outskirts of large- and mid-sized cities, have a high purchasing power, so we may import a small quantity of high-performance foreign farm machinery. There are also many kinds of products that China is not capable of manufacturing, including accessories for nonfarm machinery. As the external conditions change in the course of time, it is entirely possible that we may turn to imports to fill the gaps in the lineup of domestic products. Now is the time for some of our better equipped enterprises to go after this segment of the market far-sightedly and courageously. Enterprises that are already at a disadvantage in competition or will soon find themselves in that position should promptly turn to these products and scramble to establish themselves in a new niche of the market.

The entry of advanced foreign farm machinery into the Chinese market has advantages as well as disadvantages. It will act as a stimulant to domestic enterprises and give them an opportunity to learn, a model to emulate. Outright copying of the past, the product of a specific set of historical circumstances, infringes upon others' intellectual property rights and is impermissible under international law. In the future, therefore, competition will be an uphill battle.

Make the Most of Low Tax Rates To Import Parts, Components

Thinking in terms of the great international circle, people now realize that the old idea that everything must be made at home is both unwarranted and uneconomical. In the case of many electronic parts and components, hydraulic pressure parts, and special sensors, as well as numerous unique raw materials, we either do not make them at home, or our technology is not up to par, or the costs are too high. In these cases, it is cheaper and faster to buy them overseas than make the products ourselves. Some of the enterprises that apply imported technology in their production can import the necessary parts and components from abroad, paying effective prices far lower than current prices. With enterprises free to spend their retained foreign exchange and regulatory foreign exchange and after the foreign exchange market is

opened up and a uniform exchange rate system is put in place, enterprises will have greater freedom to select good-quality and low-priced parts and components and raw materials. The import of foreign parts will also create a competitive environment at home, which will spur the development of parts and components enterprises inside China.

Conditions Getting More Favorable for Opening Up International Market

Under the basic principles of international trade that govern the trading behavior of governments within GATT, China will gradually face decreasing discrimination in international trade after its readmission. China will automatically be entitled to the most favored nation treatment that signatories offer one another and the generalized system of preference accorded developing nations. In a word, its products can enter the international market paying lower tariffs.

Gradual improvements will also be seen in China's foreign trade system, the domestic environment that is impeding the entry of Chinese enterprises into the international market at present. Enterprises will have the power to select the foreign trade companies to work with which offer them the most favorable terms and more enterprises will have the power to export directly. Right now enterprises do not participate in foreign trade talks and have no idea who the foreign exporters are, how their products are distributed among the various export markets, what the export prices are, and how they are being used overseas. This is an absurd situation that may come to an end over time.

Conditions may improve objectively at home and abroad, but taking full advantage of improved conditions subjectively to boost their exports is still something that must be tackled urgently. Learning how to be smart international businessmen is a required course for the overwhelming majority of enterprises if they are to grasp the opportunity afforded them by China's accession to GATT.

There are basically two international markets for farm machinery. One consists of the essentially saturated markets in developed nations. These countries organize production through a rational allocation of resources among themselves and penetrate one another's market. The basic characteristics of their farm machinery are high standard and high prices. Although China's farm machinery industry enjoys an edge in small and medium-sized tools, it cannot hope to pry open this market without a major breakthrough in products. The other group consists of markets in the developing nations with their weak domestic farm machinery industries and is shaping up as the main

battlefield for the international farm machinery industry. China's industry is more suited for the latter market in terms of both price and performance and thus has more of an edge there. Our main problems are inferior exterior design, dependability, and packaging. They must be improved so that they can compete with foreign firms. Our achilles heel now is the post-sale service system (including the timely supply of parts and components). It must be understood that after quality, technical services are the principal weapon in the battle for markets. Wherever goods go, technical services must follow. In this sense, it is critical that we create the channels through which personnel can come and go rapidly and a prompt response can be made.

Ignoring the general interest, some Chinese enterprises in recent years have been competing ferociously with one another on the international market. This is the inevitable result of abnormal foreign trade measures like export subsidies, the practice of giving out prizes to enterprises which earn foreign exchange, and administrative targets replacing export targets. As economic reform deepens and the foreign trade system is reformed, and restrained by the anti-dumping principle in GATT, this kind of "civil war" would gradually come to an end after China's readmission. The enterprises should clearly understand that they must exert themselves to improve quality and services and that price-slashing is not a long-term solution and ultimately will not work.

Learn To Protect Ourselves

The basic principles of GATT are free competition, fair trade, reciprocity, nondiscrimination, tariff protection, and tariff reductions, among other things. We cannot be too naive when it comes to the way countries interpret these principles. There are numerous examples of the strong bullying the weak in the world. Where their interests are concerned, developed nations do not make the smallest of concession. Disputes in international trade have traditionally been a contest between protection and anti-protection. A case in point is the recent dispute between the United States and Europe over farm products. Written into GATT is a host of exceptions designed to protect domestic industries, including fledgling industries. There are also provisions to safeguard domestic industries disrupted by excessive imports. On the GATT issue, therefore, we must now shift our attention from discussion to practical action. For instance, we should examine the provisions of GATT in depth, familiarize ourselves with the trends in domestic and foreign trade, and keep abreast with market conditions and changes in the respective strengths and weaknesses of China and foreign countries. We should learn how to use GATT to protect ourselves. Let every enterprise turn its interest in GATT into its own strategy. Let every enterprise turn the challenge and opportunity into purposeful action.

Family Operations Contribute to Peasant Income*93CE0612C Beijing JINGJI CANKAO BAO in Chinese
27 May 93 p 1*

[Article by Xiao Demu (5135 1795 2606): "Family Operation Contributes Major Portion of Peasant Income, Which Exceeds 50 Percent of Total Rural Income"]

[Text] In the process of stabilizing and improving the contract responsibility system, family operations have gradually been restored to a primary position in rural economic development, and this mode of operation has steadily developed into the major avenue to increased rural income. This announcement by the Rural Economic Cooperative Department of the Agricultural Ministry was based on analysis of data from the 29 provinces, municipalities and autonomous regions of China.

From the standpoint of income, income from family operations in 1992 totaled 1.0163 trillion yuan, accounting for 50.3 percent of the total rural income. If income from joint household enterprises of 63.52 billion yuan is included, then the two categories combined accounted for 53.4 percent of total rural income. Income from township enterprises accounted for 26.6 percent of the total rural income, and income from village collective enterprises accounted for 20 percent. It is obvious therefore that income from family operation occupies proportionately a greater share of the total rural income.

In terms of rural per capita income, family operations also were a major factor. According to statistics, peasants on average could earn annually 592 yuan from family operations, 41 yuan from township enterprises, 45 yuan from village collective enterprises, and 15 yuan from joint household enterprises. The average income which peasants derived from family operations accounted for 85.4 percent of the average per capita rural income in that year. In 1992, the peasants on average earned 92 yuan more than the year before; of this figure, 70 yuan or 76.1 percent came from family operations. Therefore, how well or how poorly family operation is run directly influences the rural standard of living.

Given this type of situation, the relevant departments acknowledged that family operation plays a pivotal role in the rural economy and that it is therefore important to continue to stabilize and improve the household production contract responsibility system.

Zhengzhou Grain Market To Engage in Future Trading*93CE0612B Beijing JINGJI CANKAO BAO in Chinese
26 May 93 p 1*

[Article by Li Haifu (2621 3189 3940): "Improve Standardized Trading; Strengthen High-Quality Service: Zhengzhou Wholesale Grain Market To Engage in Future Trading"]

[Text] The first national, standardized market in China—the Zhengzhou Grain Wholesale Market, boldly striving toward reform, resolutely adhering to standardized trading and high-quality service, has achieved the important functions of generating active trading and setting grain prices. Up to the middle of May, the market concluded trading of 3.65 million tons of grain and edible oil, totalling 3.1 billion yuan. At present, the market is following the goals set by the government to standardize all aspects of trading, to simulate test trading, and to prepare to begin future trading, raising the form of trading to a new and higher level.

The Zhengzhou Grain Wholesale Market is the government's successful experiment in reforming the circulation of grain. By studying the experiences in future trading of other countries, and tailoring them to conditions in China, the market has developed the transaction mechanism for certain types of future trading. Since its opening in October 1990, the market's new transaction mechanism has shown to be a living force in the socialist market economy.

—The market has developed a guidance function for grain trading in China. It helps set the commodities' current and long-term contract prices arrived at through fair competition, and through the media and informational materials published by the market, publish these prices both within China and abroad; these prices are now being recognized in all quarters as the "Zhengzhou prices." The market provides an important benchmark not only for the grain producers, entrepreneurs and grain policy makers in government departments, but also a model of or a window into the China grain market for study and analysis by foreign governments and international grain merchants.

—The market has established a standardized model for trading. It has successfully researched a process for standardized trading. From trading, closing a deal, transaction to supervision, insurance provision and commercial management, all these steps are being carried out in accordance with laws and regulations of the market approved by the government. Since the market opened, the repeat contract rate has reached 90 percent and there has been no case of triangular debt.

—The market has promoted the rational use and deployment of grain capital through the year-round trading operation. Over 20 provinces in China have traded in this market. On 8 April, 130,000 tons of grain and edible oil were traded in one day through auctions organized by this market.

Guangxi Worried About Hybrid Seed Availability*93CE0648B Nanning GUANGXI RIBAO in Chinese
21 May 93 p 1*

[Article by Pan Dingjian (3382 1353 1017): "Major Slide in Late Hybrid Paddy Crop Likely. Region's Late Crop Paddy Seed Preparation Apathetic; Seed Units Concerned"]

[Text] Thinking about the late crop while still working on the early crop is a byword of farmers.

Nevertheless, preparatory work for the late paddy crop in our autonomous region leaves much to be desired. All else aside, hybrid seed preparation alone is a cause for concern. People in seed preparation units told the correspondent that seed ordering in the autonomous region is extremely apathetic, and that unless action is taken—urgent efforts made to catch up—a major slide will occur in the area sown to late crop hybrid paddy throughout the region that will inestimably hurt grain production.

Reportedly, because of unfavorable weather conditions, the early rice crop will produce only 63,000 mu of late crop hybrid paddy seeds in 1993. This is 26,000 mu less than during the same period in 1992. A forecast based on the extrapolation of previous year output shows that about 11 million kilograms of seeds will be produced. Taken together with usable seeds in storage, this means a total of approximately 19.27 million kilograms of seeds. After subtracting the advance orders from Guangdong and Hainan, the amount of seeds actually available within the autonomous region will be only about 15 million kilograms. On the basis of region-wide improvement plans, this will mean a shortfall of 2 million kilograms of seeds.

Even more problematic is the pressure caused by people coming into the region from outside to order hybrid seeds. Reportedly, Guangdong Province plans to plant more grain in 1993 for which it requires more seeds. It has hurriedly sent people carrying money into our region to order more. In the three seed producing counties of Beiliu, Bobai, and Luchuan, about 80 percent of seed production has been ordered by Guangdong and Hainan. The demand is on the increase with no decline in sight. Meanwhile, the counties (and cities) in our region that should be ordering seeds have not yet taken action. The number of people sent to seed growing areas to place seed orders has been few and far between. If this continues, most of the hybrid paddy seed in our region will flow elsewhere, and the area in the region planted to late crop hybrid paddy is bound to decline for lack of seeds.

Three reasons account for such apathy in our region's ordering of late crop hybrid seeds as follows: One is that following the change from a planned to a market economy, some jurisdictions relaxed the leadership required for grain production. They had no idea as to what varieties were dominant in local grain production and how much area was to be planted. Second, some places have a prejudice against hybrid rice. They suppose hybrid rice is of poor quality and that both social benefit and economic returns from it are low. Consequently,

they adopted a hands-off policy toward it, letting matters take their course. Third, local governments provided no interest discounts or made up for losses on seeds that local seed units ordered. Because of their scant resources, seed units did not dare risk placing orders themselves.

Some people may ask whether the gates cannot be closed at once in view of the severe shortage of late crops hybrid seeds, refusing orders from outside the region to ensure the region's own planting needs. Although workable, this proposal is difficult to implement. This is because we now have a market economy in which seed production units must be concerned about economic returns. If the gates are closed and seeds go unsold as a result, who will pay for the earnings that the production units did not make? Therefore, the only good way to ensure sufficient seeds for the region's late crop hybrid paddy growing area is to act at once, placing orders with seed production bases immediately.

The key in doing this lies in heightening our understanding.

The amount of grain production depends on how large an area is planted, and yield per unit of area depends on the seeds that are sown. Everything else being equal, the greater the heterosis of seeds for increased yield, the higher the per unit yield. The substantial growth in the region's grain production in recent years is attributable primarily to hybrid rice. In addition, not only is hybrid paddy output high, but the quality of husked rice from most hybrid paddy is also good. It cannot be repudiated across the board. As a result of the region's changing some fields to the growing of cash crops in 1993, less area will be planted to grain. Maintaining steady increase in the region's total grain output will require continued promotion of hybrid rice growing over a large area, high yields serving to make up for the output lost from reduction of the grain growing area. Every jurisdiction must fully understand this point. Leaders, in particular, must increase their understanding so as to be able to provide better guidance to the masses of cadres. As for the funds problem, if improvement work is done painstakingly, there should be no major problem. Now that local finance departments have provided some subsidy, a policy of using industry to help agriculture and tilting toward agriculture is also necessary.

In short, the key to whether a major slide will occur in the hybrid rice growing area in the region during 1993, and whether grain production can steadily increase lies in going a good job of ordering seeds. It is hoped that the broad masses of cadres and people everywhere in the region will give this careful consideration to make a decision as quickly as possible.

NORTHWEST REGION

Report on Deng Liqun Inspection of Xinjiang

93CM0358B Urumqi XINJIANG RIBAO in Chinese
24 Apr 93 p 1

[Report by Xing Wanliang: "Comrade Deng Liqun Inspects Our Work, Back in Xinjiang After 41 Years, Feeling That Xinjiang Has Undergone Enormous Development and Changes"]

[Text] During 6-20 April, accompanied by leaders of the autonomous region, Song Hanliang [1345 3352 5328], Janabil [6328 6719 1580 1422], Amudong Niyazi [7093 2606 2639 1441 3660 1320], and Feng Dazhen [7458 1129 4176], Comrade Deng Liqun, former member of the Secretariat of the CPC Central Committee and presently deputy director of the steering group on party history of the CPC Central Committee, inspected, and issued instructions in Urumqi, Kashi, Shihezi, Kuytun, Dushanzi, Bole, and Ili, after accompanying Comrade Wang Zhen's family members as they took Wang Zhen's ashes to Xinjiang and scattered the ashes.

While in Xinjiang, Comrade Deng Liqun held separate talks with some old comrades at the autonomous region's propaganda departments, some old comrades among the minority-nationality leading cadres, and comrades at the party history committee of the autonomous region. He placed wreaths at the tombs of revolutionary martyrs including Chen Tanqiu, Mao Zemin, and Lin Jilu and at the tomb of Chairman Burhan in Urumqi's Cemetery of Martyrs, and placed wreaths at the tombs of Akhmedjan and other leaders of the Three-Area Revolution in Ili. He inspected Shihezi and the Kuytun Development Zone, Alataw Shankou and Korgas Pass, the Central and Western Asia International Market in Kashi, and some factories and farms. He cordially visited the family members and children of some martyrs, underground workers during those years, leaders of military units which changed side, and old comrades. Before Deng's departure, Wang Enmao [3769 1869 5399] and Tomar Dawamat [6993 2606 1422 6671 3907 6314 2251] visited, separately, Comrade Deng Liqun at the hotel.

Comrade Deng Liqun said: I left Xinjiang in 1952. Back in this land after 41 years, I feel that changes are enormous. Both the rural and urban areas have entirely changed their appearances. In Kuytun and Shihezi, he

said that after over 40 years of development and construction, there had emerged modern cities in the desert, that industry and agriculture had undergone tremendous development, and that people's mentality had also improved greatly. Looking at the busy scene at the construction sites of the refinery project and the ethylene project in Dushanzi, he said cheerfully: It is difficult to fully and accurately describe your achievements in construction with words, written or spoken, because the development has been so fast, with progress being made every day. If it is necessary to sum up the development, I would like to use eight characters to describe it: Independence and self-reliance—a monument with no inscription. Over the 40-plus years, he said, a strong Xinjiang working class composed of people of all nationalities has been born and grown, and furthermore this fact has had, is having, and will have great importance to Xinjiang. Those great changes prove that the CPC has come to Xinjiang to do good things for the people of all nationalities, and that the socialist system has truly given people happiness.

Comrade Deng Liqun said: This visit to Xinjiang has been a short one, but I have been deeply impressed by the fact that the people of all nationalities are closely united and trust each other, and that cadres of various nationalities love Xinjiang and work to safeguard the territorial integrity of the motherland. This is a common attitude or sentiment which has been forged in a natural manner over many years of revolution and construction and which is not adopted in a reluctant manner. The exchanges of ideas and the mutual influence between the nationalities will make all of us achieve self-improvement together and advance together.

Under the direction of the party center, Comrade Deng Liqun came to Ili from the Soviet Union on 14 August 1949, and held secret talks with the leaders of the Three-Area Revolution. He set up the "Liqun" radio transmitter-receiver. During 100 days, he sent 124 telegraphs with over 100,000 characters to the party center and Peng Dehuai, thereby making an important contribution to the peaceful liberation of Xinjiang. After liberation, he worked as director of the Propaganda Department, and concurrently member of the Standing Committee, of the Xinjiang Bureau of the CPC Central Committee, and worked actively in Xinjiang in the process of establishing political authorities, carrying out democratic reforms, and achieving the recovery of the national economy. The return to Xinjiang this time has fulfilled his desire of many years to go back to Xinjiang and have a look.

Problems in Development of Higher Education

93CM0362A Beijing ZHONGGUO JIAOYU BAO
in Chinese 26 May 93 p 2

[Article by the education, science, culture, and health group of the Research Office of the State Council: "An Investigation on Several Problems in the Development of Higher Education"]

[Text] Editor's note: Early this year, comrades at the education, science, culture and health group of the State Council's Research Office, by holding seminars and interviews, conducted an investigation on the problems in the development of higher education in Beijing and Shanghai. Among those involved in the investigation were leading officials, cadres, and policy research personnel of the agencies in charge of higher education, cadres working at local planning, financial, personnel, and foreign affairs departments, the well-known figures of the education circles, and leading officials and teachers of institutions of higher education. This article is based on the result of the investigation, and mainly concerns such issues as the scale of development of higher education, the enrollment of paying students, and the issue of overseas institutions and individuals establishing schools in China. [end editor's note]

On the Issue of the Scale and Speed of Development of Higher Education

(1) The overall scale and speed are determined by the amount of investment in higher education

Against the overall background of accelerated economic development and the gradual establishment of the system of socialist market economy in China, higher education is unable to meet the needs of economic and social development, whether in terms of the quantity and quality of the trained personnel or in terms of the educational structure. In view of the need to ensure that the demand for highly trained personnel presented by economic and social development around the end of this century and in the next century is satisfied, the proposition that "it is necessary to achieve significant development in China's higher education in the 1990s," put forward by the State Education Commission at the higher education conference held in November 1991 has great practical significance.

What level can China's higher education reach by the year 2000 in terms of the overall scale? This will be mainly determined by the amount of investment in higher education this year.

According to the State Education Commission, if investment in higher-education capital construction increases by 8-10 percent each year in the next eight years, if the number of employer-sponsored and paying students increases gradually, and if efforts are made to develop college-run businesses, and many quarters increase educational investment, it is possible that regular institutions of higher education can have a total enrollment of

3.5 million students by the year 2000 (2.13 million students in 1991). In addition, adult institutions of higher education will have an enrollment of approximately 2.5 million students (1.4 million students in 1991), there can be an overall enrollment of around 6 million students. With such an enrollment, the share of students enrolled at institutions of higher education in the relevant age group of the population will increase to 8 percent from 3.2 percent at present.

According to the forecast made by the Shanghai Intelligence Development Institute in the light of usual situations in other countries, when China's per capita GNP reaches \$800 by the year 2000, the share of educational expenditures in the GNP should be 4.2 percent (3.03 percent in 1991), with expenditures totalling 161.11 billion yuan. In view of the fact that educational investment will continue to tilt in favor of basic education, government investment in higher education in the year 2000, assuming that the share of higher-education routine expenditures in the budgetary routine expenditures decreases to 18 percent from 19.1 percent in 1991 and that high education's share in capital construction investment decreases to 50 percent from 56.2 percent in 1991, will amount to 34.07 billion yuan, of which routine expenditures will account for 26.01 billion yuan, with capital construction investment accounting for 8.06 billion yuan. According to this forecast, if the inflation-based increase in education cost (the institute forecasts that the per student cost will be 9,277 yuan) is also taken into account, and if there is an overall enrollment of around 6 million students, then there will be a shortage of approximately 24-26 billion yuan. This shortage can be resolved only by gathering funds through multiple channels.

(2) Several Issues That Need To Be Given Attention in the Course of Development

For some time to come, higher education should develop mainly in terms of its own qualities, and the main things involved in this regard are such things as improving the quality of education, optimizing the educational structure, and increasing the returns on education.

1. To achieve significant development in higher education does not mean that it is necessary to increase the number of schools and set up a number of new schools, but means that it is necessary to focus on improving the existing schools' return to scale. Currently, there are 1,073 institutions of higher education in China, with an average enrollment of only a little over 2,000 students. If the ratio of faculty and other employees to students can increase from 1:2.58 in 1991 to 1:5 by the year 2000, then the overall enrollment will be doubled.
2. In terms of the relative capacities of different levels of education, regular undergraduate education should be developed to an appropriate degree, but it is necessary to focus on developing special-field education or higher professional and technical education.

At the same time, it is necessary to enhance and develop graduate education, especially the training of doctoral students.

3. In terms of disciplinary distribution, it is necessary to determine the numbers of students of various disciplines or fields to be admitted in accordance with the needs of economic and social development. At the same time, it is necessary to develop new fields of study, such as fields of study relating to high and new technologies and the tertiary industry.
4. In terms of geographical distribution, it is necessary to allow regional differences. It is proper to develop at a higher rate in the economically developed coastal regions. In a fundamental sense, it is necessary to let the localities have the power to determine the scale and speed of development—as well as the disciplinary composition—of higher education in the respective localities, so as to be able to accommodate the needs of economic and social development in a more flexible way.
5. It is not proper to further expand key universities that already have an enrollment of around 10,000 students. It is proper to adjust the internal structure in an appropriate manner, and focus on developing graduate education. At the same time, it is necessary to exploit the potential of those schools, and have them provide support for new schools in various ways.

(3) Significant development is possible only by continuing reforms

To achieve significant development in higher education, it is imperative to change the system under which only the state opens and runs schools. First, it is necessary to diversify ways of opening and running schools. Second, it is necessary to charge college tuition, so to establish a system under which the central and local governments of various levels, society at large, and the students (families and employers) will share the burden of education costs. According to the report by the Shanghai Intelligence Development Institute, if the existing system is not changed, the regular institutions of higher education can have an overall enrollment of 4.18 million students at most by the year 2000. If the system of sharing the burden of education costs is established, and if the government's share is reduced to 62.3 percent, then there can be an overall enrollment of 5.6 million students.

On the Issue of Enrolling Paying Students and the Issue of Overseas Institutions and Individuals Establishing Schools in China

(1) The issue of enrolling paying students

In May 1985, the CPC Central Committee's "Decision on Reforming the Educational System" suggested that "the method of having the institutions of higher education enroll all their students according to the state's unified plans and of having the state assume responsibility for the placement of all graduates be changed," and

that the method of having the state make enrollment plans and provide guidance on placement, the method of having the employers sponsor students whose job assignments will be predetermined to some extent, and the method of enrolling a small number of extra-plan paying students who will not have guaranteed job assignments be adopted. Since then institutions of higher education have enrolled small numbers of paying students. Last year, the number of paying students admitted increased abruptly (it had been planned to admit 628,000 students, but 754,200 were actually admitted; 86,300 of those actually admitted were paying students). Tuition also increased greatly. For example in 1990, the annual tuition was 1,200 yuan for each humanity or social science student in Shanghai, 1,800 yuan for each science student, and 2,500 yuan for each art student; the corresponding sums increased to 2,500 yuan, 2,700 yuan, and 3,000 yuan respectively last year.

Last year, before beginning the admission process, Shanghai Municipality conducted a survey of opinions of over 2,000 students of the graduating class and their parents. The results were: Over 74 percent of the surveyed supported the enrollment of paying students, and over 45 percent would like to be paying students and say that they were economically capable of paying the tuition. It is widely believed among the paying students and their parents that although it costs some money, but in return it becomes possible to go to college in any case (this is described as "buying the opportunity to go to college"), or to select a popular field of study so as to be able to find an ideal job later (this is described as "buying freedom"). Some households mainly depend on wages and the peasant households feel that they cannot afford the tuition. Some comrades at institutions of higher education believe that enrolling paying students is helpful to increasing the schools' returns to scale, that part of the tuition collected can be retained for increasing the income of faculty and other employees and for giving the faculty and other employees some small benefits relating to their children's education, and that all those effects are positive.

In view of the growing enrollment of paying students at institutions of higher education, some comrades at the agencies in charge of higher education and at institutions of higher education believe that the method currently used for admitting paying students is defective in the following ways: First, there is the problem of lowering the grade requirement in admitting paying students; this situation is in the final analysis a situation of "buying grades" and not a situation of equal competition. Second, there will be unhealthy effects on the orientation of students, especially the orientation of secondary- and primary-school students, making them think that "money talks" and that "studying hard is less useful than having a good father." Third, the fact that the grade requirements for paying students are much lower than those for other students has brought about many difficulties for making teaching-related arrangements.

In view of the defects discussed above, some comrades have put forward the following suggestions:

1. Gradually change the current practice of continuously increasing the enrollment of paying students, and adopt reform measures leading to the charging of tuition on a universal basis. This will be conducive to changing the existing system under which the state is solely responsible for educational expenditures, conducive to increasing students' enthusiasm for study, and also conducive to creating conditions for other educational reforms. Start from changing people's views, and do a good job of conducting propaganda in society and explaining the matter to all in society, presenting the argument that higher education is not compulsory education, and that those attending colleges should each pay a certain amount of training fees; in this way, people at large will accept the practice. The current annual tuition of around 350 yuan for a student at an institution of higher education is too low. According to estimates, gradually increasing the tuition to 700-800 yuan in the next three to five years will be acceptable to society in terms of society's carrying capacity. At the same time, it is proper not to adopt a uniform tuition level. It is necessary to follow a policy of reducing tuition or charging no tuition in regard to those students being trained to be teachers and those students of fields which the state has to ensure the development through special measures. Different regions, schools, and fields of study should be treated differently. While increasing tuition, the state should not reduce educational investment; in this way, the overall education funds can still increase.
2. It is necessary to end the situation where state-sponsored students and paying students coexist in one school or one class. In the future, it is proper to open an appropriate number of schools or fields of study which would have only paying students. It is also proper to consider changing some universities into schools which admit only paying students.
3. With the charging of tuition on a universal basis, it is necessary to fully develop the system of scholarships and student loans. It is also necessary to establish or perfect the supporting systems such as the credit hour system, the system governing matriculation, and mechanisms providing placement guidance for college students.

(2) The issue of overseas institutions and individuals establishing schools in China

In recent years, ever more overseas institutions and individuals have been contacting the relevant agencies, regions, and organizations in China through many channels, offering to establish schools independently or to establish schools on the basis of cooperation with the Chinese side. In terms of Shanghai alone, formal requests for permission to open four jointly run schools have now been filed with the State Education Commission.

Opening schools on the basis of international cooperation (including receiving contributions or opening jointly run schools) is not only conducive to getting foreign funds and introducing good educational practices of foreign countries, but also conducive to introducing foreigners to China's fine traditional culture. With regard to the approach to such schools, it is necessary to adopt the attitude of making ourselves the masters, exploiting things for our own sake, being bold to explore, and daring to experiment. It is proper to be rather open-minded. Some people have suggested that the provincial-level local governments be given the authority to grant approvals, while the State Education Commission conducts supervision, inspection and macro-level regulation.

It is necessary to adopt a prudent attitude toward the issue of allowing overseas institutions and individuals to independently establish schools in China. Some comrades have argued that the precondition for analyzing this issue is to have laws on education, and that before the promulgation of the education law and the higher education law, it is not proper to lift the control in this area. Some comrades believe that it is proper to conduct experiments in the Special Economic Zones, that the case-by-case method should be used, and that approval and regulating procedures should be formulated.

Bishop Ding Speaks on Central Document No 19

93CM0331A Shanghai TIAN FENG [HEAVENLY WIND] in Chinese No 125, 1 May 93 pp 11-13

[Article: "Speech by Bishop Ding Guangxun (0002 0342 6064) at the First Session of the Eighth National Chinese People's Political Consultative Conference"]

[Excerpt] [passage omitted] Since turmoil ended and order was restored, China has made significant achievements in many areas and aspects of religious work:

Redressing wronged, false, and mishandled cases in the religious circle, and dismissing unwarranted charges against a large number of religious personages to enable them to resume management of religious organizations and activities. This has helped ease the minds of numerous religious followers and unite them under the banner of patriotism.

Assisting religious circle to regain religious property and allowing the existence of meeting points for simple religious activities. This has provided a material basis for implementing the policy of freedom of religion and belief, and eased the mind of religious followers, thus contributing to socialism and promoting social stability.

Supporting publishers to print religious scriptures and books.

Supporting religious circles to establish international contacts and religious academic exchanges.

Assisting all religions to train a new generation of religious personages. This has provided initial relief to the serious shortage of personnel caused by the ultra-left line toward religious circles.

Dealing definite blows to a handful of criminals who committed political and economic fraud under the disguise of religion.

These achievements are attributable to the efforts of cadres at all levels, and the decisive role played by Document No 19 which was issued by the CPC Central Committee in 1982 and reaffirmed by Document No 6 of 1991. The salient feature of this document is that it opposes the anti-religion line, which has long controlled the religious work of the former Soviet Union and affected to a certain degree the religious work of China. This document does not make a big deal of the word "opium," nor does it advocate "waging a struggle against religion" or measure the success of religious work with the size of reduction in the number of religious followers. It emphasizes the five characteristics of religion in China: mass, national, international, long-term, and complex. It affirms that after liberation, "China's religious situation already witnessed fundamental changes" and that "the overwhelming majority" of religious personages in China "are patriotic, law-abiding, and supportive of the socialist system." Focusing on uniting Chinese citizens with religious beliefs, it clearly points out that "at the current stage, ideological and religious difference between believers and nonbelievers is a minor one." It also unequivocally points out that "uniting all people with and without religious beliefs and funneling their determination and energy to the common goal of building a modernized socialist strong nation is our basic starting and landing point in implementing the policy of freedom of religion and belief and in handling all religion-related issues." Document No 19 also emphasizes the need to "pay attention to drawing a clear line between normal religious activities and illegal and criminal activities," and the need to "resolutely guarantee all normal religious activities, which also means that we need to resolutely attack all illegal and criminal activities, all counter-revolutionary destructive activities, and all other nonreligious superstitious activities which are harmful to national interests and the people's lives and property which have been carried out under the disguise of religion." Numerous facts have told us that drawing this line is extremely important.

Today we need to speed up economic construction. Because of this we desperately need an environment favorable to reform and opening up. Conscientiously implementing the policy of freedom of religion and belief is of vital importance to stability, unity, and creating an environment favorable to reform and opening up. However, many signs indicate that practices that violate the spirit of Document No 19, ignore the feelings of the masses, and indiscriminately oppose,

suppress, control, and weaken religion have begun to gain ground in some areas. Failing to pay attention to this or letting this go unchecked will result in serious consequences. Take Christianity for instance. The Chinese Christian Three-Self Patriotic Movement Committee and the China Christian Association (namely the "two national committees") each year receive over a thousand grievance and appeal letters from grassroots units. Of course, it is impossible for us to verify each and every issue raised in such letters, but with so many appeals coming from so many provinces and prefectures, we have to assume that most of them are basically true. Many appeal letters we received reveal that proper authorization and protection are not given to locations used for carrying out normal religious activities, and the lack of authorization is used as a charge for banning numerous such locations. Some letters reveal that candidates for church leaders (ministers, committee members, secretary generals, and office directors) are decided by cadres. Churches have no say in this matter. As a result, even those who have no religious training, who have a bad reputation, and who do not belong to the church can also become church leaders. Recently many letters and phone calls reflected that some areas, without consulting, seized church land and tore down church buildings in the name of urban construction and site expansion for enterprises and establishments. They called on the two national committees and the Religious Affairs Bureau of the State Council to give emergency assistance.

Recently the two national committees, the Central United Front Work Department, and the Religious Affairs Bureau of the State Council sent a joint investigation team to investigate in two provinces and discovered many similar incidents.

What we usually hear is cadres' briefings. The above letters come from the enforcers of the religious policy, and they serve as an important supplement and comparison. They are worth noting. When Chairman Mao went down to carry out investigation and research, he did not stay at the level of cadres. He went deep among the masses. Those who wrote the letters are also Chinese citizens. They are entitled to the freedom of religion and belief. As the chairman of the two national committees, I often feel inadequate and guilty when I try to free them from their predicament.

What I try to say is that in some areas the guiding principle of the CPC Central Committee for religious work is being resisted and attacked instead of being popularized everyday. Some people still do not genuinely believe in the long-term and complex nature of religion. They still do not really believe that religious work is worth paying attention to and that the CPC Central Committee did not give them the task to wipe out religion immediately; nor do they believe Chairman Mao's teaching on not using administrative orders to handle the religious issue of the masses. Posing as a warrior that fights religion and happy to attack religion, they do not understand how deep the root of religious existence is, and as a result, make things worse by forcing

religion to go underground and degenerate into a still lower form. This only provides more audience for the outlaws. We all know that everybody has different hobbies and habits. Some people like to listen to music, some like fishing, some like drinking, and some like to play ball. Why don't we allow people to participate in religious activities if that is what they like? Besides, they probably will all love their country regardless of such differences.

People who think deep all understand that religion has always played the role of restricting people's behavior. There is an old saying: "All religions teach people to do good deeds." This shows that nonbelievers generally do not have much dislike toward religion, and some even have somewhat favorable impression. At this initial stage of socialism, the voice of religion and advanced moral standards can reach the same goal by different routes. Today when standards of value are confused and people find themselves at a loss, religious ethics might not be a bad thing for enlightening the people and raising their moral standards. Teaching people to "have ideals, ethics, education, and discipline"—isn't this what religion can contribute to? What is the need for eliminating religion? In addition to teaching people to behave themselves, religious appeal can be attributed to the deepest concerns of mankind over such ultimate issue as life and death. Because of this, it is really very difficult to estimate how long religion will continue to exist. It looks like that as long as the ultimate pursuit of mankind remains unfulfilled, it will be too early to talk about the fall of religion. It is not that easy to control, merge, weaken, ban, and wipe out religion as one wishes.

Some people think that attacking religion is always a good thing and there is no need to pay any attention or interfere. This is a form of subjectivism, very harmful. During the period of the Great Leap Forward, Wenzhou used the high-handed method to deal with religion and announced that it had become a religion-free city. Today, Christians in this city account for 6 percent of the city's total population, the highest in China and even higher than the 5 percent of Hong Kong. The only scientific means of dealing with religion is to respect, not stimulate, it. The best thing to do is to guide it with its own law, not attempting to control and attack it. Otherwise, blindly opposing religion and tightening control will inevitably kindle the flames of fanaticism. This will

not be the good fortune of the country nor the church. We have had many lessons and experiences in this regard. There is no need to repeat our mistakes. We should of course resolutely attack the limited number of people, who under the disguise of religion, engage in illegal, criminal, and superstitious activities or collaborate with foreign enemies in infiltration, but they are only a handful of them. Our policy on the broad masses of religious followers should not be determined by the crime of these few people. All locations for carrying out normal religious activities should be resolutely guaranteed according to Document No 19. They should not be disapproved or banned at will. Keeping steps with the times, many religions are being transformed into culture-, ethics-, and service-oriented entities, which should naturally be welcomed and supported. This is also "establishing our policy on a discriminatory basis."

Religious believers are a minority in China. It is easy to ignore their right to the freedom of religious belief and their lawful rights and interests. Therefore, publicizing the policy of religious freedom should be made a routine task. In the 1950s when Premier Zhou showed direct concern for religious work, the necessity of the policy of religious freedom used to be a major subject for propaganda. RENMIN RIBAO wrote an editorial on the rise of the Chinese Christians Three-Self Patriotic Movement and published the names of Christians who signed their names to support the Three-Self Movement (self-management, self-support, and independent preaching). In light of the situations at that time, Premier Zhou explained at length China's policy on religion at several people's congresses and CPPCC meetings. Since then, cadres at various levels and on different fronts have changed several times, and the concept of religious freedom and respect have been gradually forgotten. To stress religious work, today we desperately need to intensify propaganda and education in the religious policy among cadres across the nation (including cadres at government religious affairs departments).

Premier Li Peng said in the government work report: "We should enforce the religious policy, and manage religious affairs according to law." This is very good and very important. I hope that people do not mistake the religious issue for a subordinate issue under the issue of uniting the people of minority nationalities. We know that the religious issue is not properly resolved even in Han nationality areas. [passage omitted]

Taiwan's Airborne Anti-Submarine Warfare Capability

93CM0350A Beijing JIANCHUAN ZHISHI
[NAVAL AND MERCHANT SHIPS] in Chinese
No 3, 8 Mar 93 pp 6-7

[Article by Jiang Yan (6199 6056): "Perspective on Taiwan's Airborne Anti-Submarine Warfare"]

[Text] Various recent indications suggest that Taiwan is willing to spend large sums of money to expand its airborne warfare capabilities. Not only has the Taiwan air force imported 150 F-16 fight planes and four E-2C early warning plans from the United States, but it has also imported 60 Mirage 2000 fighter planes from France to strengthen its air-to-sea, air-to-ground, and air-to-air combat capabilities. In addition, the Taiwan navy has imported 12 American navy multi-purpose "Seahawk" helicopters, which are used mostly for anti-submarine warfare missions. The American navy "Seahawk" helicopters are armed with the LAMPS anti-submarine warfare system. Since this system is one of the most advanced helicopter anti-submarine warfare systems in the world, the United States has prohibited the sale to other countries of the entire system. Therefore, what the Taiwan air force obtained is the factory number S-70C model helicopter, which is very likely equipped with a stripped-down version of the LAMPS warfare system. Even so, inasmuch as the Taiwan air force has updated the 40 S-2 anti-submarine patrol planes it already has, and obtained 12 "Seahawk" anti-submarine helicopters as well, its aerial anti-submarine warfare capabilities will be greatly enhanced. While buying large numbers of fighter planes, Taiwan has also urgently developed its own aerial anti-submarine warfare capabilities, an event that cannot help but arouse the concern of people on both sides of the Taiwan Strait who long for peaceful unification.

Combat Goals

The Taiwan authorities believe that under certain circumstances, they might be subjected to a serious blockade, the most likely form of which might be as follows: deployment at the northern and southern end of Taiwan Island of a mobile surface warship fleet to cut off Taiwan's major ports (an overwhelming majority of which are on the western side of the island) from the shipping lanes to the south and north. Furthermore, the ocean waters to the east of Taiwan are fairly deep, facilitating the movement of blockading submarines. The blockading country could send submarines into the ocean to the east of Taiwan to ambush ships entering and leaving Taiwan from this direction, thereby severing the shipping lanes on the eastern side of the island. To open a hole in the north-south blockade line, or to harass one end of it (Taiwan's most important southern end, for example), Taiwan's military authorities believe they would have to conduct raids against the blockading surface ship units enforcing the sea blockade, and that the raiding forces would have to be Taiwan warships and

airmen. When necessary, Taiwan might also retaliate against the blockader, i.e., employ air and sea forces to raid the blockader's sea and air bases. Thus, a battle for air superiority over the Taiwan Strait would ensue between the blockader and the blockaded. This is one reason Taiwan is importing large numbers of advanced fighter aircraft for its air force.

Simultaneous with the purchase of large numbers of advance fighter planes, the Taiwan authorities have intensified the construction of ports on the eastern side of the island, both increasing the number of ports on the eastern side and upgrading the importance of the eastern ports and eastern shipping lanes. Very clearly, when Taiwan is blockaded, the important western ports on the Taiwan Strait side of the island will lose their significance. If the eastern side of the island has relatively good port facilities, ships on the western side can skirt Taiwan's coastline to get to the east, putting to sea as the situation permits, and they can also reverse direction to return. Therefore, the ports and the shipping lanes on the eastern side of Taiwan hold important significance in countering the blockade. Nevertheless, armed clashes are never a preference. If the blockader has a certain number of submarines, he would be able to pose an extremely great threat to the ports and the shipping lanes on the eastern side of Taiwan. A series of actual armed warfare experiences and penetrating theoretical study, as well as various exercises show that for submarine warfare to be most effective, it must be conducted in combination with various other methods, other branches of service, and other techniques. Not only is it necessary to strike the adversary's submarine bases, but even more important is the readiness to wage warfare at sea or against the submarines underway to, or that have already been deployed in, the ambush area. Not only is it necessary to use surface vessels and submarines against the latter, but even more important is the use of anti-submarine patrol planes and anti-submarine helicopters. Military theoreticians also unanimously agreed long ago that the most effective anti-submarine technique is the use of all sorts of anti-submarine patrol planes and anti-submarine helicopters. Seemingly, the Taiwan military authorities also accepted this scientific conclusion long ago. Between 1966 and 1985, the Taiwan air force imported 44 model S-2 shore-based anti-submarine patrol planes from the United States, and in July 1977 it formally established in the navy a ship-based anti-submarine helicopter service for which it imported from the United States 12 model 500 MD anti-submarine helicopters. In addition is the recent purchase from the United States of 12 "Seahawk" shipboard anti-submarine helicopters. Taiwan might be said to have a substantial airborne anti-submarine capability. The strengthening of Taiwan's airborne anti-submarine warfare capability is closely linked to the upgrading of Taiwan's east coast ports and shipping lanes. Clearly, the main combat goal of this airborne anti-submarine force is to counter a blockade.

Combat Use

The model S-2 shore-based anti-submarine patrol planes are Taiwan's main airborne anti-submarine warfare force. The model S-2E anti-submarine patrol planes are equipped with two 1,528 horsepower model R-1280-82 reciprocating engines. Their maximum speed is 426 kilometers per hour; they have a cruising speed of 241 kilometers per hour (at low altitude), a flight duration of nine hours, a range of 2,170 kilometers, and a ceiling of 6,400 meters. The plane's submarine searching equipment includes spotlights, radar, and sonar buoys. It is armed with anti-submarine torpedoes, "Seahawk" anti-submarine missiles, and 127 mm rockets. At an 80 percent combat-capable rate, Taiwan can fly 35 or 36 sorties of S-2s, deploying 18 of them at both ends of the island. If each group of aircraft were to remain in the patrol area for about seven hours on continuous patrol 200 kilometers distant from their shore bases, each group would have to rotate once every seven hours, i.e., between three and four rotations every 24 hours. If each group consists of four planes, 16 planes will be needed for four aircraft groups, with two left over for emergency use. In conducting searches in a certain formation, these four aircraft can continuously monitor underwater submarine activity over a 200 square kilometer area. If these patrols are out for the purpose of breaking a blockade, as soon as they spot a blockading submarine, they can launch crippling and destructive attacks. Against submarines on the surface, submarines that are semi-submerged or that are using their periscopes or breathing apparatus, the S-2s can use radar, naked eye observation and spot lights for search and find. The S-2 can use sonar buoys to monitor submarines underway beneath the sea. Most of the aircraft carry tens of such buoys that they can drop as they go to form, and continuously maintain, a monitoring zone. Within this sonar buoy monitoring zone, conventionally powered submarines find escape difficult. Since nuclear submarines travel at a great depth and at high speed, aircraft cannot easily latch on to and attack them. However, to use their weapons, nuclear submarines must also rise to a relatively shallow depth where they may be discovered and come under attack.

The strength of the Taiwan navy's shipboard anti-submarine helicopter units has increased markedly following the addition of American "Seahawk" anti-submarine helicopters. The combat radius of the "Seahawk" helicopter is 100 kilometers; it has some anti-submarine patrol capability; and it can serve as a shore-based anti-submarine plan; however, when the number of them is limited, possibly they are best used to assist ship-based anti-submarine aircraft on surface ships. In submarine warfare, the Taiwan navy's surface ship fleet can work together with the S-2s, the S-2s being responsible for the fleet's outermost anti-submarine missions, the "Seahawk" helicopters being responsible for the second outermost anti-submarine missions, and the innermost anti-submarine missions being the responsibility of surface vessels themselves. If the "Seahawk" helicopters that the Taiwan navy obtained are equipped with the American LAMPS anti-submarine warfare

system or the stripped down version of that system, when either system is used in combination with the Peili class escort vessels now being built, they will pose substantial threat to blockading submarines. In addition to their role in anti-submarine warfare, the "Seahawk" helicopters can also take on anti-ship, transport, reconnaissance, and rescue missions.

Conceivably, to support its submarines smooth passage through an S-21 airplane monitoring zone, a blockader might send fighter planes out to patrol a certain area. It could also have submarines pass beneath surfaced ships, using a surface fleet as cover; however, such actions could be conducted only if the blockader has effective control of the air. Therefore, Taiwan's airborne anti-submarine warfare is based on the establishment of air superiority, and this is another reason why Taiwan has been willing to spend large sums of money recently to buy fighter aircraft. If the blockader's aircraft are able to stymie the S-2 patrols, the next target for them to deal with is the "Seahawk" helicopters aboard the escort ships. Of course, since the minimum speed of most supersonic fighters is about 300 kilometers per hour, while the maximum speed of most helicopters is only between 250 and 300 kilometers per hour, it is no simple matter for a fighter plane to shoot down a helicopter in close combat. The helicopter might be able to "bite back." However, the high angle of elevation (at low speed) of new model fighters has been greatly improved, and their minimum maneuvering speed has been greatly reduced, permitting them to dogfight helicopters more readily. They can also use dogfight missiles to attack helicopters. Of course, the fighters in Taiwan's air force can likewise provide cover for its anti-submarine fleet.

A look at the goals and form of Taiwan's naval and air anti-submarine warfare shows that despite a certain amount of build up, reliance on fighter aircraft is still very great. This also shows that blockade and counter blockade warfare will be warfare in which fighter plane aerial combat will be the decisive element. Of course, the numbers and performance of the blockading submarines, and the strength of the counter blockade anti-submarine forces are also of crucial importance in warfare.

Xinjiang MD Officer on Material, Petroleum Supply

93CM0361A Urumqi XINJIANG RIBAO in Chinese
3 May 93 p 2

[Article by Song Fengyao (1345 6646 1031), Director, Materials and Petroleum Office, Logistics Department, Xinjiang Military District (MD)]

[Text] In recent years, thanks to leadership provided by units at a higher level and the support of the local petroleum corporation, the August 1 Iron and Steel Corporation, and the local oil refinery (and stations) guided by the intensification of reform, and taking greater control as the focus, the military district has

successfully completed all tasks in materials and petroleum work to bring about a new situation in the way work is done.

All quarters concerned throughout the military district have improved coordination and tightened organization to ensure supplies of materials and petroleum for the war preparedness training of military district troop units, national defense construction, and rescue and relief tasks. Mindful of the character of supply to military forces stationed in Xinjiang, the military district has actively and boldly promoted three reforms, namely contracting both petroleum supply and operating funds quotas, joint supply of petroleum to military units in Xinjiang, and joint supply of materials to armed forces in Xinjiang. It has invested more than 26 million yuan in the building of standardized filling stations for 92.6 percent of the organic units throughout the region, and has strongly emphasized the repair and renovation of rear area petroleum depots. As a result, the district now ranks among the best in the standardization of its materials and petroleum depots (and stations) for the fashioning of a petroleum supply network in which storage, supply, and control are integrated, and individual points, supply lines, and the whole area are linked together. All base oil depots have also conducted campaigns for "bringing about a new situation," petroleum depot (or station) "safety cup" evaluation and comparison competitions, materials station and depot attainment of the "two changes," and major inspections of petroleum supply administration. They have also provided specialized technical training of many kinds, the caliber of personnel working in materials and petroleum supply thereby improving markedly, their knowledge greatly improving. This has strongly advanced and improved professionalism in materials and petroleum work.

Today, when the country is busy accelerating the pace of reform and opening to the outside world and striving to develop a socialist market economy, both opportunities and challenges exist and both hopes and difficulties exist. Military unit materials and petroleum supply work is also facing new situations of this kind as well. What can be done to meet the situation and accelerate development? The most fundamental solution continues to lie in the emancipation of thinking, changing outlook, seizing opportunities, and accelerating reform.

First, the supply and control mechanism must be transformed. Military supplies and petroleum have distinctive commercial attributes. The decontrol of markets and the gradual reduction of the plan component in supply are bound to having an impact and an influence on the supply of materials and petroleum to the armed forces. Solving this problem requires both reliance on the energetic support that the autonomous district's petroleum (and its iron and steel) corporations, refineries and mills (or stations) provide, in addition to which the military district itself must transform its supply and control mechanism to improve benefits from the use of materials and petroleum (or equipment). First, a change

in planning and support concepts is needed to understand actively and take part in markets, changing "passivity" into "activity," changing "helplessness" into "action," and changing "waiting for supply" into "providing supply," thereby improving self-support capabilities to ensure supplies to military units. Second is the need to inculcate economic benefit concepts to overcome the idea that "military petroleum costs nothing" that stems from the "supply system" that has been used for a long time for military unit materials and petroleum. It is necessary to promote quota contracting for petroleum (and equipment) across the board, reform the supply of operating expenses, and provide military units with the right to take the initiative and the right to exercise control for truly good management and use of limited petroleum and operating funds. In addition, inculcation of total benefit concepts is needed, continually improving the supply of materials and petroleum by zone, completely readjusting support tasks, rationally zoning support districts, making full use of existing depots (and station) facilities, making it easier for service branches to fashion a comprehensive support capability, and improving military economic benefits.

Second is the necessity for expanding depot (or station) functions. For a long time, the materials and petroleum depots (and stations) that military units have built have been independent and separated military supply points. This separation has damaged military units themselves. The rapid development of local economic construction requires support from all quarters and through many channels, yet much of the equipment and facilities at the modern depots (and stations) in whose construction the armed forces have invested 100,000 yuan is semi-idle for lack of support tasks to perform. Therefore, it is necessary to think in terms of serving society and helping military units, decisive actions taken to expand the supply functions of these depots (or stations). So long as normal supply of military units is assured, a number of military filling stations should be opened at key points in a step-by-step action to supply petroleum to civilian motor vehicles. In addition, firm grip must be taken on the building of the Ala Shan mountain pass and the Kuitun materials supply trans-shipment station. Entry and exit points should be used to carry on border trade, the leasing of materials and petroleum station and depot storage buildings and station platforms should continue, and scaffolding and building forms should be leased out. Military units should provide services that assist the civilian economy in the form of harvesting, storing, issuing, processing, repairing, training, and inspections, thereby increasing military units' income for an enhancement of reserve strength to do further materials and petroleum work.

Third is the need for greater automation. The Xinjiang MD is far away from inland China in an area in which transportation is not readily available and that is cut off from information. The automation of its materials and petroleum depots (and stations) is fairly backward, and work efficiency does not meet needs for military units

peacetime materials and petroleum supply and vocational improvement. Once the basic facilities at materials and petroleum depots (and stations) are in good shape, the focus of further depot (or station) construction should be switched to the use of "science and technology to build depots, and science and technology to build stations" for the building of a complete military district materials and petroleum computer-designed system. Close attention should be given to the installation and debugging of rear area base petroleum depot and materials warehouse automation systems to bring about the gradual automation of storage area parameter measurement [canshu celiang], storage area safety control monitoring, and measurement of gasoline fill ups or piecemeal supply. Filling stations along some highways should also be automated so that gasoline is automatically measured, quickly dispensed, and safety warnings given.

Fourth is the need for close attention to the performance of war preparedness work. Even though the world situation is easing today, the world is far from peaceful. We must maintain high vigilance, devoting major efforts to revamping war preparedness work procedures, improving war preparedness plans, putting in place various materials and petroleum war preparedness systems, and building a war preparedness work system in which the armed forces help civilians in peacetime and are mobilized to fight in wartime. Rules and regulations for the requisitioning of civilian facilities in wartime should be perfected, a complete preparedness plan prepared for production, processing, storage and transportation, so that when the orders come down, changes can be made quickly to ensure supply.

Fifth is the need to improve the level of specialized science and technology. As the building of "two changes" in the armed forces moves ahead, the materials and petroleum system already has a number of talented persons who have fairly high expertise. However, for the long-term, more must be done to improve research in the materials and petroleum system. Science and technology must lead the way in promoting development of materials and petroleum endeavors. Thus, it is necessary to build leadership organizations for materials and petroleum research, draw up scientific research management methods, increase operating expenses, set up scientific research funds, launch widespread campaigns for mass scientific research and research on academic theories, accelerate the translation of research achievements into production, and follow a course in which research, production, and operation are integrated for the building of the armed forces and to serve building of the civilian economy.

Logistics Deputy Director on Military Transport
93CM0338A Urumqi XINJIANG RIBAO in Chinese
15 Apr 93 p 2

[Article by Zhang Fahu (1728 4099 5706), Deputy Director, Logistics Department, Xinjiang Military District (MD): "Strive To Do Better Quality Transportation Work"]

[Text] Can the implementation of "vigorous support" help meet requirements for building a quality military transportation system? I believe the following several problems must be addressed in this effort.

(1) Increase Quality Consciousness, Putting More Effort Into Raising Management Effectiveness

Building a better military transportation system requires, first of all, the firm inculcation of quality consciousness. Transportation units and all military communications and vehicle logistics officers and men must inculcate a "quality first" mentality, shouting out the slogan "quality military transportation work is the life blood of military transportation work." Second is better quality control. A "logistical control year" campaign must be actively conducted, the use of vehicles strictly controlled, the trip ticket system and certified control practiced. Every effort must be made to implement the general headquarters call for 5 percentage points less travel than in 1992. Close attention must continue to be given the implementation of "Motor Vehicle Transportation Fee Control Methods," fees collected on the basis of vehicle mileage. The changing of vehicle number plates must be strictly organized in a revamping of vehicle operating procedures, vehicles not included in the table of equipment corrected and inventoried. The results achieved during 1992 in consolidating and expanding vehicle maintenance and repair should be continued, the practice of neglecting repair and maintenance halted to bring the vehicle in-service rate and war preparedness rate to a new high. Next is the need to improve follow-up on quality. The situation today shows continuation of the practice of improving vehicle logistics and military transportation personnel work style and discipline only to become lax once again, close attention given to basic level detachments followed by a decline in attention, revival of vehicle skills and the condition of military highways only to be followed by a slide. In view of these circumstances, we must continue to make consolidation of achievements a key part of our work. The building of military transportation logistics in quick reaction units is particularly important. Emphasis must be given to support and construction that meets specifications, meets requirements, is complete, and is excellent."

(2) Highlight Key Tasks, Devoting Energies to Better Standardization of Military Transportation Work

Greater standardization of military transportation work is a basic way to improve the quality of military transportation work and improve combat strength. In focusing on this task, continued attention must be given to further study and implementation of a system of rules and regulations. Our eyes must be focused on solving old, difficult problems that have long defied solution. "Stringent" efforts and "painstaking" work are the only ways to come to grips with the problems. At the same time, attention must be given to the key tasks of building up basic level units. The first requirement is to revamp the way work is done at the basic level, building standard work procedures. Second is to bring work at the basic

level within the purview of company-level inspections, increasing authority to take the initiative and the dynamism of work at the basic level, manpower, energies and financial resources at the basic level being concentrated on basics.

(3) Emphasis on the Cultivation of Role Models, Efforts Placed on the Summarization of Experiences for Steady Development

Emphasis on the cultivation of role models, and allowing role models to lead the way is an effective way to move work along. Skill in identifying role models, diligence in cultivating role models, and boldness in establishing role models is a primary requirement. Units performing military transportation at all levels must regularly immerse themselves in day-to-day life to find role models who are able to represent the orientation of development of military transportation work, and then they must make efforts to nurture them to stimulate work across the board. Second is the need for steady summarization of classic experiences, bringing role models to the fore. In recent years, vocational units at all levels have brought to notice quite a few role models for transportation work. These role models have played a major role in moving military transportation forward in the Xinjiang MD. Third is correct handling of the correlation between role models and the whole situation. The use of role models must stimulate work across the board, and good across-the-board performance requires skill in finding and using role models. Role models must be used realistically. Their use positively cannot be divorced from reality. They cannot be put on a pedestal for no apparent reason, and much less may they be accorded a special status, extra money or material goods used to "create" role models. Influencing the overall situation requires full use of role models. The guiding role of role models must be used to provide everyone an example to study and a goal to pursue, a competitive atmosphere of studying advanced models, catching up with advanced models, and struggling upstream created to move forward with the development of work across the board.

(4) Improvement of Work Style To Encourage Enthusiasm in Implementation

A look at military transportation work in the Xinjiang MD during the past several years shows that failures in implementation continue to be a fairly prominent problem in some units. There are two main reasons for this as follows: One is work attitude problems; the other is work method problems. Comrades in some units do not want to do arduous and painstaking work. They are unwilling to relate their work to reality; and they do not want to do work that is difficult and that is slow in showing results. Consequently, solving the failure of the implementation problem requires analysis of the problem in terms of rectification of work style, solving the persistent ailment of "no implementation" by correcting thinking. The experience of some advanced units and the state of military transportation work in military

units in Xinjiang shows that the key to implementation lies in four words, "thoroughness, transformation, regularity, and repetition."

(5) Active Efforts To Gain Support; Working Hard on Creating a Fine External Climate

Close attention on the part of leaders and cooperation among different organizations provide important assurance for good performance of military transportation work. Practice during the past several years shows that the achievements may in all tasks stem from the close attention of leaders at all levels. Only when leaders pay close attention and provide support can military transportation work be put on the daily work agenda and be accorded the position it should be accorded. An example is the marked results obtained from the promotion of a responsibility system for vehicle control work by units in the Xinjiang MD. The Xinjiang MD's best ranking in the entire armed forces in the six consecutive years safe driving campaign; the outstanding successes achieved in the implementation of the "Three-Year Plan for Basic Level Building of Military Transport Logistics"; the complete success in the uniform testing for three years in a row of newly trained drivers following graduation; and no slackening in 13 years of the "Red Banner Vehicle Driver" evaluation and comparison campaign are all directly attributable to the close attention and support of CPC committee leaders at all levels and the associated assistance of departments concerned. However, the key to gaining the close attention of central committees and leaders and the support of units concerned lies in the efforts of transportation units themselves. They must actively take the lead in filing reports on their work with the leaders and publicizing the importance of military transportation work. They have to take the initiative in improving ties with the units concerned, in maintaining smooth relations, and in actively working for the units to gain their attention and support, to reduce internal frictions and bickering, and to enhance cooperation in giving close attention to military transportation work. At the same time, they must be adept at making military transportation a key task and an important activity of troop units. For example, we must take an active part in the attainment of objectives in the building of the basic level, in the attainment of the goals of the "three changes" in equipment management, and war preparedness testing. We must make military transportation work a part of the building of military units, making it constantly meet needs in building the armed forces.

(6) Successful Completion of Tasks Plays a Role in Implementation of "Vigorous Support"

Can the implementation of vigorous support successfully complete all transportation tasks at all times and under all circumstances? I have the following thoughts:

First, it is necessary to maintain a keen war preparedness outlook, do a good job of military transportation support

work to be able to move in emergencies, and improve transport support capabilities to meet suddenly occurring incidents.

Military transport work is a prerequisite for the building of the armed forces. Improvement of the quick reaction capability of military transport is an urgent task confronting us. We must maintain a high degree of vigilance at all times, improving the quick reaction capability of military transport under all circumstances. As soon as an order comes down, we must be prepared to pull out, go on the move, advance, and do good maintenance to ensure smoothness throughout and outstanding completion of the entire mission.

Second is the need to train a vehicle logistics corps whose ideology is red, whose work style is firm, and whose skills are the finest.

In providing specialized training in vehicle logistics, a doubly strict policy of strict requirements and strict training must be put into effect. The entire process of driver selection, training, practice on the job, assignments, transfers, and release from military service must be controlled, training provided that enhances vocational skills. At the same time, education and training

must be given to improve the work style and discipline, the ideological education, the ethical standards, and the physical condition of the vehicle logistics corps. In addition, a strict classification and selection out system must be enforced to make gradual structural improvements so that the corps become well-rounded, highly trained, capable, and adaptable. Only in this way can "vigorous support" be realized.

Third is the need for tight organization, ensuring safety, and successful completion of all transportation tasks.

In both peacetime and wartime, successful completion of all transportation tasks is the ultimate goal of "vigorous support." How can all tasks be completed successfully? This requires tight organization of the vehicle corps, rational assignment of personnel, scientific planning of the order in which vehicles move, strict vehicle movement discipline, and implementation of a safety responsibility system for the fashioning of a superb environment in which everyone pays attention to safety, practices safety in every situation, and maintains safety at all times to insure the safe movement of vehicles without accidents. Only when safety work is done well can the successful completion of all tasks be assured.

Interview With Hao Po-tsun on 14th KMT Congress

93CM0367A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 281, 1 Jun 93 pp 68-71

[Interview with Hao Po-tsun; 19 May in Taipei: "Hao Po-tsun Previews 14th KMT Congress"]

[Excerpt] [passage omitted]

[Question] Are you satisfied with the process and result of the number of representatives elected to the 14th KMT Congress?

[Answer] I certainly cannot say that I am very satisfied, because I have long advocated the principles of democracy, justice, fairness, and in public to select party representatives. However, the current process obviously does not agree with these principles. I must stress again that I am not unhappy with the phenomenon of some popularly-elected representatives becoming party representatives. But they can emerge through elections of local party branches. I even advocate the quota-guarantee system, by so doing in the future their words will have meaning. Naturally, the best method is to hold a temporary plenary session of the Central Committee, and thereby have it decided by all committee members. Some argue that time does not allow for doing that. I think this is not a matter of time, but a matter of whether you want to do it or not.

With respect to party representatives, I have exchanged views with many Standing Committee members, and they all said "the uncooked rice has been cooked" and "the current political climate is like that and we have to adopt and implement expedient measures." I feel that this is an irresponsible attitude of trying to smooth things over and to appease the masses, and of ignoring principles.

[Question] Do you still insist on holding a temporary plenary session?

[Answer] A temporary plenary session is certainly not going to be held. Instead, we are going to have an informal talk. The intent of an informal talk is to give you no chance to alter the reality but a chance to complain. This is political trickery. Expediency and political trickery are currently the two major issues facing Taiwan's political system, because they are detrimental to the system. If expediency is allowed at the beginning, what will come next?

[Question] When the bill on party representative was advanced, you were in America. Do you feel it is a bit coincidental?

[Answer] It was not a coincidence. It was arranged. They knew that if I attended this congress, this bill would unlikely be able to pass. In fact, before I left Taiwan, there was no indication of this matter. When this provisional bill was proposed, it seemed many people spoke up to support it. Only Mr. Yu Guo-hwa (former head of

the Legislature Yuan preceding Hao Po-tsun and Lee Hwan-chi) could make such a ruling.

[Question] During your visit to the U.S., you criticized the party representative extension bill for violating the principle of justice. When you came back, you mentioned that you did not have a premeditated standpoint. Could you elaborate on the cause and the process of this change?

[Answer] When I was in the U.S., I was thinking that there was no such an affair before I left and that I was going back in a few days, so I wondered why all this hurry. Therefore, I was dubious about the motive of this bill. But after I came back, I felt it improper to air any opinion before I made the matter clear. After I had made the matter clear, I knew that I had no way to change that. However, I also should not give up the chance to express my principles and viewpoint.

[Question] Lin Yang-gang, the head of the Judicial Yuan, has said that if you opposed the party representative bill, your promotion to party vice chairman position would be affected. Did this have any impact on your change?

[Answer] I fully understand that Lin's words are purely good will. If he had told me about this privately, it would not matter that much. But when it was released to the public, some people who had ulterior motives heard this. It thus looked as if I changed my position for the sake of saving my vice chairman seat, and it had a strong smell. Therefore, I must clearly declare that this has nothing to do with Lin's words and my position is still against the bill.

[Question] Recently in several party meetings, some said that they are not sorry for being separatists. What do you think about this? How strong is the possibility?

[Answer] If the party is united internally, nobody will raise such a question. But if the party deviates from its legitimate spirit and principles, the KMT will not be the real KMT, except for an outer form and a name. I think this is unacceptable to young people. Young people like to uphold their ideal, and I think this is not merely a normal phenomenon, but also a necessary move from a certain viewpoint.

As for the likelihood, I dare not say anything and also hope that this won't happen. Personally, I always hope that I can do my best to save the party from going astray. For instance, the KMT should not be governed by money, and should not be led by some factional heads because they do not have KMT's ideology and just want to use the KMT name to seek personal profits.

[Question] As regards the vice chairman issue, we all know that currently the two internally nominated candidates are you and Lin. What do you think about this?

[Answer] This has to do with the party constitution. It is yet to be specified in the constitution whether there will be a vice chairman, or a few vice chairmen, and who is to select. It is too early to talk about this. Now many people

say that it is up to the chairman to choose the vice chairman. But when time comes, will some people voice objection and argue that other people should be allowed for a democratic election? It is hard to say.

[Question] If at that time it is decided that it is up to the chairman to nominate, and the chairman nominates you...

[Answer] Even if I am nominated, I will not definitely be elected. Other representatives would probably like to recommend some. From the perspective of democracy, I think it should be open for public nomination.

[Question] What do you think about the creation process of the party's Standing Committee?

[Answer] The Standing Committee in the future will be created basically through the election of the Central Committee. A school of thought advocates that some specific positions should become permanent in the

Standing Committee, and another considers it unnecessary, saying that these people only need to attend when the meetings are held. I advocate that in principle the elected Standing Committee members exceed at least half of the total, or account for two-thirds of the total.

[Question] What is the KMT's future direction?

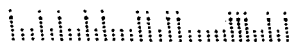
[Answer] The most serious problem facing the party's Central Committee is unsystematic decision-making. The Standing Committee has become an ineffective "rubber stamp." In addition, a seminar of the Central Committee should be held once every three months according to regulation, and now it hasn't been held for a few years. A Central Committee congress should be held once a year, and a year has passed long time ago. Thus, with respect to the aforementioned temporary plenary session of the Central Committee, in fact, we should already have held the congress, let alone a temporary plenary session. All these ruleless practices can be characterized as "expediency."

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